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Middle East

Article Urges Peaceful Mideast Solution

WA10090626 Tokyo ASAHI JOURNAL in Japanese 7 Sep 90 p 24—FOR OFFICIAL USE ONLY

[Article by Yasuo Sugihara, Hitotsubashi University professor]

[Text] Although Japan has Article 9 in its Constitution, stipulating the nonmilitant nature of the defense forces, Japan's Self-Defense Forces [SDF] are prominent in the world and have cooperated with the United States. On the other hand, the Japanese Government has preached the prohibition of the right of collective self-defense and that dispatching the SDF overseas is restricted by law. However, because of the existence of the SDF and Japan-U.S. cooperation, the above laws are undoubtedly difficult for foreign countries to understand.

Regarding the Gulf crisis, Japan must consider the following three choices: 1) Find a way to dispatch the SDF. This will accelerate the existing practice of gradually departing from Article 9 of the Constitution. 2) Use constitutional restrictions to avoid dispatching the SDF abroad. Or 3) Return to the original purpose of the Constitution, which I believe, is the choice that we should make.

We need to recall when the Constitution was first promulgated. At that time, Kijuro Shidehara and Shigeru Yoshida said concerning Japan's Security treaty: "Japan will take the lead in establishing the most comprehensive peace movement." This meant that Japan will defend against war and arms buildups, and will exhaust all efforts to create a peaceful world, because Japan, without resources of its own, can only exist in a peaceful world.

The Constitution Will Prevail in the World

When there are conflicts such as the one in the Middle East, I believe Japanese leaders such as the prime minister should go to areas of conflict and preach the necessity and benefits of a peaceful resolution and offer Japan's economic and technological aid effectively.

This action is in accord with the Constitution. As a peaceful nation, Japan's role is to create and maintain peace in the world.

Japan is prohibited by law, and it is not appropriate, for Japan to punish other nations by using military force.

Expanding its military budget has forced the United States to carry a burdensome deficit, changing it from a creditor nation into a debtor. Also the Soviet Union's economic failure is forcing it to change its system. The world has noted that military expansion can lead to the collapse of a nation's system. As a result, arms reduction has been pursued, which agrees with Article 9 of Japan's Constitution. The world is moving in the direction of disarmament.

The economic sanctions against Iraq will no doubt cause great damage to Iraq, even after the conflict is resolved. Moreover, Iraq should change its political and economic systems so that the people can live equally and further influence its neighboring nations. In any case, Japan will be able to assist economically and technically.

Every time there is a regional conflict, Japan will probably be forced to make a military choice or a costly economic choice. I hope that the Gulf crisis offers Japan an opportunity to think and deal with the situation as a peaceful nation.

SDF in Quandary Over Gulf Troop Issue

WA10090238 Tokyo SHUKAN GENDAI in Japanese 8 Sep 90 p 61—FOR OFFICIAL USE ONLY

[Unattributed article in the "Nagatacho Periscope" feature—boldface passages as published]

[Text] **The question of "dispatching Self-Defense Forces [SDF]" to the Middle East has emerged suddenly as a result of Iraq's invasion of Kuwait.** In Nagatacho politicians are busy debating either participation in the multinational forces or financial burden-sharing.

Regarding constitutional restrictions, leaders of the Liberal Democratic Party [LDP] in the fields of foreign affairs and defense say: "If we join the official United Nations forces, then it is possible that we will not be restricted by Article 9 of the Constitution." In reality, the proposal of Taku Yamasaki, acting chairman of Security Research Council, to amend the "emergency dispatch law so as to send unarmed SDF officers" is being discussed. This may result in sending SDF medical officers.

However, concerned members of the Defense Agency fear that "if we have to dispatch our forces, we will end up in great embarrassment."

These members seriously worry: "Our young men will not respond to a call for military action. We have been witnessing a decrease in people applying to the Maritime SDF because of its extended sea duty. If these men are asked to fight abroad, they may just quit." **Moreover, there are "bewildering suggestions" that "perhaps we should recruit middle age to older SDF officers by offering them special privileges, such as extending the retirement age or giving additional retirement money."** Japan is now a "military power," boasting that its "military budget" is the third largest in the world, but in the end, this is what it has come to.

Official Views Contributions to Middle East

OW1309084990 Tokyo TOKYO SHIMBUN in Japanese 11 Sep 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

["Summary" of interview with Seiki Nishihiro, former vice minister and current adviser to the Defense Agency, by unidentified reporter in Tokyo; date not given; from the "Scoop" series]

[Text] [TOKYO SHIMBUN] Do you think the results of the U.S.-Soviet summit can be an effective deterrent to Iraq?

[Seiki Nishihiro] Yes, I think they can. The problem is how effective they will be in compelling the (Iraqi) return to its original boundaries. Driving the Iraqis into a corner will do no good. How to return the situation to normal without using force—that is the point toward which efforts will be made henceforth. If a military engagement occurs, there will be casualties on both sides.

[TOKYO SHIMBUN] Debates on how Japan should contribute to the Middle East situation still cannot overcome the question of the constitutionality of sending personnel to the area.

[Nishihiro] The world has changed a great deal since the adoption of the Constitution. The first point to note is that international cooperation exists now. No nation can exist in isolation from other countries. The second point is the multipolar power structure that has replaced the bipolar power structure of the Cold War. Superpowers are disappearing, and responsibilities for dealing with world events have to be shared increasingly among many nations. With such changes occurring, it has become important that the Constitution be given another review as to interpretation. While the Iraqi incident has been an opportunity for us to consider this, I am not saying that this matter should be taken up now in the midst of this situation in the Middle East. Ample time should be given to review of this question; for now there is no choice but to do the best we can within traditional interpretations of the Consititution.

[TOKYO SHIMBUN] Mr. Ozawa, general secretary of the Liberal Democratic Party, says that from the viewpoint of international law taking precedence over national laws, there is no legal problem in sending the Self-Defense Forces [SDF] overseas, even under the present Constitution.

[Nishihiro] I do not think the Constitution says we should not share our portion of international responsibilities. But under previous government interpretation of the Constitution, overseas dispatch of the SDF for the purpose of using force is difficult. We have to have a new interpretation with public approval. If possible, we should be able to take action to defend the lives and property of Japanese—not of foreign nations.

Japan is not the country under attack. It should be possible for Japan to engage in peacetime security police actions, for instance, sending vessels of the Maritime Safety Agency and the SDF on marine security missions in the open seas near the Persian Gulf.

At present, one of the questions is whether Japan can send personnel other than those of the SDF. Should that happen, the question arises of who should be sent under what organization and in what status.

Ships and aircraft for transportation of commodities can be made available only under the condition that there is no state of war. Once a state of war arises, we cannot ask civilians to "go" there. To do so will be very inhumane. If we do have to ask them to go there despite this, then we would have to provide escorts.

[TOKYO SHIMBUN] What about the possibility of SDF personnel going there unarmed?

Nishihiro: Asking SDF personnel to go there unarmed is the same as asking civilians to go. We have to tell them what to do in case of a contingency. But SDF personnel going to a battleground in civvies is like going in for spy activities; they cannot receive protection under wartime international law. Sending people without making their status clear is an infringement of basic human rights. It must be in a form that assures means of survival for these people if they are sent there.

[TOKYO SHIMBUN] What about the fact that a civilian medical team is now getting ready to go?

[Nishihiro] I would rather it did not go. If the team gets assigned to a place near the border area close to a battleground, there will be no way of ensuring its security.

[TOKYO SHIMBUN] There are some people who insist that the law governing the SDF should be revised so that the SDF can be dispatched overseas.

[Nishihiro] I think that is in reference to participation in UN activities. But at present in the UN there is no organization to accept such participation. That means that even if we had a legal way to send the people, there would be no place to send them to. Sending people when there is no place to accept them is like sending refugee reservists.

[TOKYO SHIMBUN] Would you comment on Japan-U.S. relations in relation to Japan's cooperation in the Middle East?

[Nishihiro] Japan-U.S. relations are most important for the two nations. But there is no need to try to do something which is actually impossible or which is hardly effective even when done. What is important is that Japan is sincere in her efforts to help. Should it come down to there being no choice but for Japan to send people out, then it will be reasonable to send SDF personnel on maritime security missions, even though it

may have little military meaning. As for financial support to multinational forces, once a war breaks out, almost immediately the figure for it will jump one digit higher. We will need to be prepared for the potentially higher costs.

In the long term, what is necessary will be to take measures so that this type of problem does not arise again. The fundamental thing to do, for instance, is to take serious actions to prevent the flow of arms to autocratic nations like Iraq.

Iraqi Ambassador Justifies Taking of Hostages

OW1109151490 Tokyo MAINICHI DAILY NEWS in English 10 Sep 90 pp 1, 3—FOR OFFICIAL USE ONLY

[MAINICHI SHIMBUN interview with Rashid M.S. Al-Rifa'i, Iraqi ambassador to Japan; place, date not given]

[Text] *Foreign nationals, including Japanese are being held as virtual hostages by Iraqi authorities following the Iraq invasion of Kuwait. In an exclusive interview with the Mainichi Shimbun, Iraqi Ambassador to Japan Rashid M.S. Al-Rifa'i, 51, while saying he felt sorry for the unwilling "guests," justified the practice as a way of resolving the Gulf crisis.*

The ambassador harshly criticized Japan for supporting multinational forces assembling in the Gulf against Iraq.

Mainichi: Foreign Minister 'Aziz and other Cabinet minister are visiting various countries recently. What is the purpose of their visits? Also, the vice prime minister is planning a visit to Japan, although his schedule has not been arranged yet. What is he going to request from Japan?

Al-Rifa'i: The main idea of having our leaders going around the world is to explain our point of view and our posture.

We feel that it is very important that other countries, especially countries that have friendly relations with Iraq, should really understand what the Iraqis have in mind. So we are ready to talk to any friendly country that has the era to listen to our people and try to make them understand our situation. Also we are trying to put a stop to this unfriendly, inhuman and unjust attitude of the foreign countries putting the embargo against us.

As for our vice premier's visit to this country, it depends on the Japanese side. We feel that when the Japanese want to listen to our leaders, we are ready to talk. If they don't want to listen, then that's their business.

Mainichi: We fear that Japanese people have been taken to somewhere in Iraq from Baghdad, and we do not know how they are being treated and how they are doing at this point of time. You indicated that your leaders are willing to visit Japan if we are ready to listen to you. But the situation of these detainees in Iraq is difficult to understand.

Al-Rifa'i: First of all, I would like to say that all of the people who are in Iraq, whether they are Americans, British or Japanese, are treated with the utmost respect by our people. They have been taken care of, they are secure and Iraq has no intention to harm them in any way. There is no question about that.

The reason why they are not allowed to leave the country is to prevent the hostile sides—the people who are trying to trigger a big war in the area—from triggering that war if possible. So if any harm comes to those people, it will come from their countries and from those who support their countries. This is the general position.

As for the Japanese people in Iraq, whom, by the way, we respect very much and we know that they have been working in our country, although I do not know where they are living now, I can assure you that they are in very good hands and they are not going to be hurt in any way. I must add that, in our position, now we have a lot of Marines, army, air forces of the Americans, the British and some of the countries they call their allies in the area, and a land which is hostile to them. It is the Arab land and it is also the holy land of Islam and Arabs.

Those people are preparing for aggression against Iraq. So we have to choose between either allowing them start war—then we'll have to reply, of course, we're not going to stand still and wait for them to hurt us—or try to find some way to put some sense into their minds so that they might think of peace. We hope that the presidents of nationals of hostile countries will get some sense and prevent war in the area and move toward peace.

If you assess the dangers, not only for the Arabs, by the presence of the American troops and the other Western troops, you should be able to understand the reasons behind keeping those people in Iraq. The main reason is to try to achieve a peaceful way of getting out of this crisis. We hope that everybody will understand and not jump to conclusions. How can you condone the presence of such forces in our area?

Mainichi: What kind of conditions should be met in order to release these hostages?

Al-Rifa'i: First of all, we don't call them hostages. They are our guests. And they are really our guests, in a way, although we are sorry that they are kept against their will. Since they are kept there to try to achieve some peace, then the conditions to get them away is to achieve some peace. And we've stated this.

If we can get an international guarantee that nobody's going to attack Iraq, that the Americans, the British and all the other forces that are meeting on the desert of Saudi Arabia and the Arab emirates in the area are not going to be aggressive and attack Iraq, that would be a good condition for their release. We have announced

that many times. But it seems that the other side is adamant for war and they want to attack, so they cannot give such assurance.

Mainichi: You have used the word "guests" as opposed to "hostages." But in respect to those foreigners who are detained in Iraq, are you looking at British and Americans differently than at Japanese, or are Japanese in the same situation as British and Americans?

Al-Rifa'i: They are not different because I think they are mostly treated in the same way. I don't know exactly what their position is there, because, as you know, this is not possible. But I think, especially now that Japan is paying money for the support of the American forces, they will be treated the same as the Americans, the British and the others, because now Japan is a full partner in this endeavor of aggression against us. You don't have to send an army to fight; you can send your money to fight also. It's like paying a killer. They are responsible for this also.

Mainichi: I would like to return to the question of Japanese people still remaining in Iraq. I would say that the majority of the Japanese people are against your detaining Japanese in Iraq regardless of the reasons. Many are very angry with the situation. Our Constitution does not allow us to use collective defense, and if the solution is prolonged in the future, we may see a situation in which people ask our parliament to revise our Constitution and our Self-Defense Forces laws. What are your views on this? Also, have you communicated Japan's special situation that differs from that of other countries to Baghdad?

Al-Rifa'i: It's not to our liking to keep people against their will. We understand the Constitution of Japan. What we do not understand is the behavior of the Japanese government, which is not conforming to the Constitution of Japan. What is the difference between paying a billion dollars to support American forces and sending Japanese guards? There is no difference. You are paying somebody who is carrying the gun instead of carrying the gun yourself. This is something our people cannot understand also. You have to take this into consideration.

We understand the anger of the Japanese people about this position, and we are very sorry for it and we hope that they will understand our position also. We don't want the destruction of our country, the destruction of our area, and the destruction that will shock the whole world—because this is what is going to happen if there is any war in the area. As I've said to some of the socialist dignitaries that have come and visited me here, I hope that the Socialist Party will stand in the way and say that we will take another 1,000 Japanese to Iraq to go there for the cause of peace, because Japan's Constitution is for peace and not for war. Now there is a difference between the theory of the Constitution and the practice of the government. Unless you can condone between the two or you can get the government to act in accordance with the Constitution, in spirit and in letter, not only in letter, why do you expect us to have credibility in the position of Japan?

As for the call for changing the Constitution, we feel that this a matter for Japan, and I don't think that this could be done because of the area. You are living in an area that checks every military move on Japan. With your support to the Americans, there are voices in Korea and other places shouting that you are remilitarizing. Anyway, it is up to the people of Japan to decide. We are not going to interfere.

Also, the government of Japan's policy now, we think, will harm Japan much more than it will harm Iraq, because Japan so far has a very clean hand in our area. Now it is putting its hand in the dirt of the American interference and the British colonizer interference in the area. That will have negative reflection on the outlook toward Japan in our area. Maybe you've seen the plague—I think it was on the front page of the Mainichi—that says, "Japan, eat your Toyotas." This is the first time I think this has appeared in the Middle East, because we have always treated Japan different, in a friendly way. In 1973, we cut oil to all the countries except Japan, because we felt that Japan was different. Now Japan is becoming the same, so we treat them the same as the Americans there.

Mainichi: Many countries are participating in an economic blockade against Iraq. Did you anticipate this kind of wide blockade against Iraq?

Al-Rifa'i: This is unprecedented attitude. Unfortunately, many countries have formed the blockade, but also many countries did not agree with the blockade. This is never mentioned in the Western media. There are 71 countries that do not support the blockade against Iraq out of the United Nations.

Mainichi: Who do you expect to play the role of go-between in order to solve this situation?

Al-Rifa'i: We are not afraid. We talked with the Iranians directly. We solved our problems and now we have permanent peace with Iran. We are not afraid of talking with people. Unfortunately, Japan is frightened of talking with us. Maybe they are being pushed to be frightened to talk with us. We can talk with anybody about this directly. We don't need a mediator. If there is any mediator, of course it would help.

United States

* Semiconductor Agreement Hits U.S. Hard

902A0266A Tokyo NIHON KEIZAI SHIMBUN in Japanese 21 Jul 90 p 3—FOR OFFICIAL USE ONLY

[Column by editor Koichi Nishioka]

[Text] One should not have to eat a centipede, even if it has golden legs. Semiconductors, the "sustenance of modern industry," have become remarkably distasteful.

First it was the increased importation of things that we Japanese have little use for. Now it is the disruption of the "seasonal" product cycle in which our industry operates. The development of a new precision technology has always led to the quick commercial exploitation of that technology. At first the price is high, but it falls rapidly and before long everyone is biting into it. This is the sweet season that we all welcome.

These seasons have not been felt for the past two or three years in our saturated domestic market. Everything seems to have the same dull taste. It is not the fault of any changes in the weather either. It is the result of the Japan-U.S. semiconductor agreement signed in the summer of 1986 and due to expire a year from now.

It can't be said that the agreement is a luxury for us. After four years, it is probably the American consumers who have the bad taste in their mouths.

Although foreign-made semiconductors, mostly those made in the United States, have not yet achieved their promised 20-percent share of our market, they are, nevertheless, making slow but steady inroads. These non-Japanese semiconductors had 8.6 percent of the market at the time the agreement was signed, 10.6 percent in 1988, 11.8 percent in 1989, and 13 percent from January through March of this year.

As a rough measurement in terms of money, foreign-made semiconductors increased their market share by 3.2 points from 1986 through 1989, taking about 80 billion yen out of a 2.6 trillion yen market in 1989. These foreign semiconductors earned 40 billion yen in 1988, and 20 billion yen in 1987. The total earnings for this three-year period amount to around 140 billion yen, or $1 billion.

The United States, however, is paying an unexpected price for the agreement. As a result of the over-effectiveness of MITI's [Ministry of International Trade and Industry] directive that Japanese semiconductor makers refrain from over-producing in order to forestall accusations of dumping, the cost of computer memory elements rose substantially.

In the spring of 1987 [as published], the 1-megabyte DRAM (dynamic random access memory) large manufacturers were offering 1-megabyte Dram's to users at a price ranging between $12 and $13. The price fell to $10 a year later, but rose to around $20 during the last half of 1987. The price two years later in 1989 had fallen to around $12 to $13.

Projections by the semiconductor makers at the beginning of the agreement had the average price of a semiconductor element falling around $5 for the two years of 1988 and 1989, a price which would have cost Japanese makers more than $1 billion for the over 200 million semiconductor elements exported to the United States during that period. If you add the 256K byte elements, the total cost would have been in the tens of billions of dollars. But it never happened. What did happen was the U.S. side of the balance sheet ended up with the big bill. The irony lies in the question of who should be paying for the agreement. Those bearing the brunt of the U.S. share increase in the Japanese market are the large consumer electronics firms such as Toshiba and NEC. But at the same time, these companies are major suppliers of IC's [integrated circuit] themselves. The American semiconductor buyers are the ones who have inadvertently taken on the burden of subsidizing the agreement. The money being paid to the American semiconductor manufacturers is really coming from the pockets of IBM, Apple, and the other American computer makers.

The American semiconductor makers are striving for a resurgence in their business at the expense of American computer manufacturers and high-tech businesses, the very firms who are supposed to be the most competitive in the international market. This is the reality of the semiconductor agreement.

This type of pricing signals the disappearance of the "seasonal" pricing cycles that we have become accustomed to in terms of the interplay between technical development and marketing. Like the computer industry, there are other industries, such as steel and automobiles for example, which operate in the same cycle of an advanced technological development being quickly exploited through the mass production and marketing of products linked to that new technology.

There should perhaps be a regulation, in regard to the complete cycle of a product's life, that the price of a product be established to cover costs and a fixed profit. It is then reasonable that prices should be lowered to create a demand, after which, when that demand has been realized, the prices can be raised to meet the cost-plus-profit figure. This development-marketing cycle is also analogous to a "season" in which the user manufacturer first reaps the benefits of low initial prices, which some consider dumping, but through which compensation is eventually paid to the original manufacturer in the form of higher prices when that market matures. As a result of this type of predictable cycle, the user manufacturer is able to set up product development strategies based on the initial low price of the materials utilized.

The Americans seem determined to turn the tables on us with their 20 percent semiconductor market share. I wonder if we can look forward to experiencing the thrill of their success again next year.

*Changes in Consolidated Account Settlement Urged

902A0256A Tokyo NIHON KEIZAI SHIMBUN in Japanese 21, 22 Jul 90—FOR OFFICIAL USE ONLY

[21 Jul 90 p 1]

[Text] The United States—advocating competition under common international rules—has begun to shift

its focus from Japan's parent companies to the lack of clarity in their group management, and to their mode of consolidated account settlement. Although it did not surface at the Japan-U.S. SII [Structural Impediments Initiative] talks in June, the United States has sought, beneath the surface, a disclosure of region-by-region profit-and-loss on a consolidated basis. Meanwhile, the securities market is attempting to put the focus on earning power and growth ability. The trend toward overseas local production and restructuring centered on company decentralization have made it difficult to grasp the substance and capacity of the companies without using a consolidated base.

Suspicious Look From the United States

"Only the sales figures in the regional data of consolidated account settlement may be made public. If profits and losses are revealed, problems such as the transfer price tax system that is wrongly pointed out by the U.S. tax authorities could crop up every year. Vice President Masahiko Hirata of the Matsushita Electric Industrial Company emphasizes a sense of crisis concerning the U.S. demand for disclosure of region-by-region profits and losses. His remark represents the true feelings of Japan's corporations.

Revealing regional business profits and losses in the consolidated account settlement—an agenda item brought up by the United States at the Japan-U.S. SII talks—appears at first sight as a plain and simple accounting problem hidden behind an increasing volume of public investment and *keiretsu* [chain of affiliated companies] dealings. However, it actually contains an extremely crucial problem that inevitably gives the corporations the jitters.

This spring, a move by the U.S. Internal Revenue Service surfaced to impose supplemental taxes on the American subidiaries of Hitachi, Toshiba and Matsushita. The reason is its view that their U.S. subsidiaries are raising the prices of imports from Japan (transfer prices) unreasonably high, and are under reporting their profits acquired in the United States. Actions regarding dumping cases also continue to be filed actively, and the U.S. Commerce Department recently filed actions against Sharp and Hitachi on suspicion of LCD [liquid crystal devices] dumping sales.

The United States has begun to cast suspicion not only on Japan's parent corporations, but also on their management as groups including their overseas subsidiaries. This has become the backdrop for a demand to disclose consolidated profits and losses separately by domestic and overseas categories. Due to the revision of the Finance Ministry ordinance in 1988, corporations are required to disclose information on sales and account settlement by regions (domestic and overseas) and segments, beginning with the FY90 consolidated account settlement. However, because industry strongly objects to disclosure of regional profits and losses, it has been permitted autonomous judgment concerning disclosure for the time being, and mandatory compliance has been postponed.

At the recent Japan-U.S. structural negotiations, Japan emphasized that "the disclosure of segmented information is a new experience for Japan, and gradual steps are necessary for a smooth start" (Finance Ministry business finance division). The explanation was accepted by the U.S. side.

Sony's Decision

Just when it seemed somehow possible to survive "outside pressure," the issue of disclosing regional profits and losses again burst out from unexpected quarters. Sony Corporation decided on a policy of revealing its business profits and losses separately by domestic and overseas sectors, beginning with its FY90 consolidated account settlement. This sparked "Sony-bashing" within the industry.

"Why this, when we had opposed disclosure of regional profits and losses by pushing Sony up front?" (Keidanren [Federation of Economic Organizations] executive). "Frankly, it is quite annoying" (a director in charge of accounting for an electrical machinery manufacturer). Such criticism against Sony has become commonplace.

Sony itself was against disclosure at the outset. However, it was obliged to make an about-face in its policy. Sony had entered a stage where it could no longer survive by merely relying on domestic logic.

Following its acquisition of CBS Records of the United States in 1988, Sony purchased Columbia Pictures & Entertainment, a major movie production company in Hollywood, last year. It has thus embarked on large-scale M&A [mergers and acquisitions].

As a result of the purchases, its total assets as of the end of March 1990 was as follows: Y2.1321 trillion in the main account, and Y4.3701 trillion in the consolidated account, or more than two-fold. Also, on a consolidated base, domestic sales make up 30.2 percent, whereas overseas sales comprise 69.8 percent, including 29.8 percent in the United States alone.

If the weight of in-group operations overseas including the United States should grow at the present rate, there is no alternative except to disclose the results of overseas operations. It can also be considered as a change in policy necessary for investors to understand Sony's management.

With the rapid advancement of the multinationalization and internationalization of Japan's enterprises, global-scale corporations must compete with foreign corporations under common international rules, whether they like it or not. In order to prove that they are competing fairly, they will be required more than ever to present a management index in the form of a consolidated account settlement.

Attention of Investors Also Drawn

The mounting interest in the consolidated account settlement is not only due to "outside pressure." Vice chairman Yasuo Kuramoto, an adviser to Fidelity Investment Services, says: "The market will emphasize the fundamentals of corporations in the future, and attention will naturally be focused on the consolidated account settlement."

With the high yen rate triggered by the Plaza Accord in 1985 as a turning point, corporations are stepping up decentralization with local production overseas and advancement into new fields as their objectives. Mergers and acquisitions similar to those by Sony are no longer rare today. Managers have also begun to regard consolidated account settlement as necessary for the increased efficiency of group management.

[22 Jul 90 p 1]

"Mirror" of Group Management:Impact on Stock Market Increases with Earning Control As A Weapon

[Text] The place was the departmental heads meeting of Mitsui & Company held on 6 July, the day when summer bonuses were distributed. President Naohiko Kumagai opened the meeting with the statement: "The sector with the most outstanding performance in FY89 was the raw steel material sector," and he announced the top five sectors in performance.

Impact On Bonuses

Although self-supporting accounting settlement by sectors had been adopted, it was the first time that results were announced at a departmental directors meeting with high praise for the best-performing sectors. The profit figures that were evaluated did not represent the home company by itself, but were based on consolidated account settlement that included subsidiaries as well as related companies in charge of those sectors.

Based on the record of achievements, the corporation gave out bonuses with differentials between the sectors. Of course, this was also a new case. The reason given was that "the record of a given sector cannot be evaluated accurately merely by looking at its independent account settlement," (Managing Director Keiichi Sugita).

During the past decade of severe trials and tribulations that was called the wintry era of the general trading companies, Mitsui & Company amortized Y400 billion worth of bad bonds (including Iran-Japan petrochemical bonds). About 80 percent of the bonds are reported to involve subsidiaries and other related companies.

The chief factor was the reverse trend against aggressive investments during the late period of the high-growth era and the early low-growth era, which delayed restructuring of the group of subsidiaries with emphasis on products from heavy industry, such as nonferrous companies. However, company executives admit that, "having evaluated sector achievements on a self-supporting accounting settlement basis, large and harmful effects have resulted from an emphasis on profits for the parent company that placed burdens on the subsidiaries."

Aside from such self-reflection, the emphasis on consolidated account settlement also had a forward-looking reason. In the business of growth areas led by informational services, the organization is too large for the main office to cope with it. Naturally, the roles of the subsidiaries and related companies have gained in importance.

Decentralization as a Backdrop

"Management and methods used by the steel companies for new business are extremely different." "The era will come when top managers (who know only about steel) will be unqualified to oversee the group as a whole." These are bold statements made by President Hiroshi Saito of Nippon Steel Corporation.

Nippon Steel is advancing successively into new businesses centering on electronics. It is a decentralization strategy of establishing subsidiaries and relegating the businesses to them. Beginning with the March quarter of 1990, it increased its subsidiaries based on consolidated account settlement from six to 41 companies, and converted their operations to the consolidated account settlement type of management.

Regarding the steel industry's profits and losses, the rate of operation becomes a key factor. Despite its multivariety of products, the iron sources are common, and the steelmaking process using blast furnaces takes up 60 to 70 percent of fixed costs. Consequently, attention by management tends to be focused on the rise and fall in production volume. In contrast, in the case of the electronics business, products and services are multivaried, and careful cost management is demanded. If the methods of the steel industry are used, efficient operation of the electronics business cannot be expected. This is what President Saito implied.

Nippon Steel, which was unable to make intricate moves in response to environmental changes and is likened to a huge battleship, has fostered the growth of its subsidiaries under independent management that are likened to cruisers, and it is working toward income management as a group through consolidated account settlement.

"The actual state of management cannot be grasped without observing it on a consolidated base," (President

Tadahiro Sekimoto of NEC and managing director Shinji Kamachi of Hitachi Ltd.). The corporate managers promoting group management today are without exception looking toward consolidated management.

However, both personnel evaluation based on consolidated results and the statements by managers stressing consolidated management strongly indicate the use of management control techniques with the aim of reforming in-company attitudes. In that sense, the corporate eye of the group may be said to be looking inward.

Low-Key Announcements

Regarding the announcemnt of consolidated account settlements on the securities exchange, many companies continue to merely distribute data materials. They are not earnest enough to explain the independent account settlements. For the March 1990 quarter, 158 companies on the Tokyo Stock Exchange made simultaneous announcements on both independent and consolidated account settlements. Although it is an increase to 5.6 times the number two years ago, only 20 percent of the companies announced consolidated account settlements.

Twice this year in March and June, the stock price of Nippon Mining Company declined with downward revisions of performance by its Gould Inc. acquired in the United States, thus attracting attention in the stock market. Also, the consolidated real profits of the Shin-Etsu Chemical Company are likely to drop by 10 percent as a result of stagnation at its vinyl chloride production subsidiary in the United States, resulting in a flurry of offerings.

Until now, there was a strong tendency in group management by Japanese corporations to treat their subsidiaries and related companies as subcontractors. "Because, under subcontracting, vertically linked consolidated account settlement is not much different from independent account settlement, our investors were not interested in consolidated settlement," (executive director Shunji Saigo of Nippon Seiko KK).

However, if overseas subsidiaries and new business subsidiaries with autonomy achieve growth, and large-scale M&A become common, the stock market will be unable to ignore consolidated account settlement.

Consequently, managers are required not only to take a look inside the corporations, but to also disclose the actual state of group management to their investors as quickly and understandably as possible.

* Antimonopoly Law Enforcement Standards Needed

902A0259A Tokyo NIHON KEIZAI SHIMBUN in Japanese 25 Jul 90 Morning Edition p 27—FOR OFFICIAL USE ONLY

[Article by Kobe University Professor Satoru Negishi: "Compietion Of Enforcement Structure Of Anti-Monopoly Law Necessary"]

[Text] **Rules Are up to International Standards**

(1) The functioning of the Anti-Monopoly Law has been questioned in the Japan-U. S. Structural Impediments Initiative [SII] talks, and making it function for rules of competition that are accepted internationally has been called for.

(2) The Anti-Monopoly Law has had its ups and downs, but today it does have commonly held international rules for competition.

(3) The problem is in their enforcement and in their actual functioning. We cannot say that the rules called for by the Anti-Monopoly Law are fully realized in corporate behavior, due to such things as administrative guidance-like application by the Fair Trade Commission, the partial functioning of the system for damages and fines, and the Japanese social consciousness that prizes group harmony and order.

(4) A completion of an enforcement system in the broadest sense with such things as loosening of regulations and emphasis on rules of competition by the agencies dealing with industry, the maintenance of a system for corporations to obey the law, a functional improvement in the system damages, and an active use of fines and an improvement in the system of levies for cartels are called for in the strengthening of the enforcement ability of the Fair Trade Commission.

The Anti-Monopoly Law Was a Focal Point of the SII Talks

The process of these negotiations reminds one of a parent giving opinions to a child who has now reached an age of when he is able to make his own mature judgment. The United States is the one that gave birth to the Anti-Monopoly Law, and 43 years have now passed since it was first enacted.

The Anti-Monopoly Law, which sets down rules for free and fair competition, is a law that was enacted in 1947 as a basic law for the economic democratization of Japan and was part the occupation policies of the Allied powers, chiefly the United States, and it was modeled on the U. S. antitrust laws. The establishment of the Fair Trade Commission independent of the cabinet as the organ responsible for the enforcement of the law, also took as its model the Federal Trade Commission which is the body responsible for the enforcement of the antitrust laws in the United States.

The Anti-Monopoly Law was the first law that was clearly established for the purpose of ensuring the interests of the general consumer. However, for Japanese industrial society which, ever since the Meiji period had been used to a type of system of public and private cooperation in fostering industrial growth, it was a completely different style. Therefore, at the beginning, even though the Anti-Monopoly Law was to be the basis, there were many who rejected it and it was difficult for it to become well established in society.

There were major revisions softening the law in 1949 and 1953 and there were a host of exceptions made as to the law's application. There was approval of cartels, and a profusion of cases where administrative guidance by the government placed limits on competition and, furthermore, the Fair Trade Commission was somewhat passive as to administering the law. The law continued to experience difficult enforcement.

The government reevaluated the Anti-Monopoly Law and urged its use as a weapon in price policy and consumer protection and the Fair Trade Commission started to become more aggressive at the end of the 1950's, but it was the proliferation of cartels with the oil crisis of 1973-74 with its "uncontrolled, raging price increases" and the like that provided the trigger, and in 1977 the law was actually strengthened for the first time.

After going through this process, there is virtually no one today who does not accept in principle the Anti-Monopoly Law as setting down the basic rules of a free economic system.

However, we cannot necessarily say that the Anti-Monopoly Law is truly accepted socially or that it is realized in the behavior of enterprises. There is a large gap between the theoretical system and actual practice concerning the Anti-Monopoly Law. It is this point that is being questioned today.

The Anti-Monopoly Law prohibits as cartels, consultation on construction projects, prior arrangements between competitors to raise prices, and also fundamentally prohibits as unfair trade practices, the designation by manufacturers of sales price to sellers and forcing them to maintain a particular resale price. The interference with parallel imports by import general agents is also strictly regulated as an unfair trade practice.

Furthermore, the cooperation of competing enterprises or cooperation between the manufacturer and the customer to boycott or refuse trade with certain other companies is prohibited as a cartel and as an unfair trade practice, and the restriction of customers by powerful companies, enforcing transactions with their affiliated companies are also all variously prohibited.

In this way, the rules of the Anti-Monopoly Law themselves are not inferior even when compared with those of the U. S. antitrust laws and they are fully compatible internationally. In order to deal with industrial groups the Anti- Monopoly Law also has provisions not seen in other advanced nations for prohibition of holding companies and for limits on total amount of stock holding by large-scale industrial corporations.

In the U. S. claims there are areas that are both one-sided and contradictory. On the one hand, while demanding a stricter regulation of cartels by Japan, they, on the other hand, create a cartel called export self-restraint, and enforce export limits by demanding administrative guidance that produces the same results as a cartel.

Furthermore, the U. S. Government since around the time of the Reagan administration has been influenced by the so-called Chicago school of economics, and loosened the restrictions under the antitrust laws concerning such things as limits on vertical business transactions including limits on customers, specialty stores, binding resale prices that limit negotiation between the manufacturer and customers, but it is demanding from Japan stricter regulations under the Anti-Monopoly Law concerning vertical trade transactions on such things as intra-group firms in distribution and subcontracting, and binding resale prices. We cannot say that the U. S. rules of competition are necessarily those accepted internationally. In the United States sales of items with premiums, with the exception of prizes is, as a basic principle, unrestricted. On that point, vis a vis Japan, the United States is demanding that Japan abolish regulation of premiums under the Premium Indication Law as something that hinders new market participation by U. S. companies.

However, in the various countries of continental Europe and in the northern European nations, premium promotional sales distort freedom of choice for consumers, and since it also distorts traditional competition that focuses on price and quality, it is seen as an unfair competitive practice and it is as a principal forbidden, which is the exact reverse of the policy in the United States.

Japan lies between these two positions and while even recognizing the function of promoting sales through premiums, excessive sales of items with premiums becomes an improper customer enticement, and since there is the fear that it will interfere with fair competition, with upper limits set by the Premium Indication Law, premium sales are prohibited. The ways of thinking about sales premiums by the various nations reflect their various social and cultural backgrounds, and we cannot force the rules of the United States on them.

Deeply Rooted "Mutual Dependence"

However, the problem lies in whether these kinds of Anti-Monopoly Law rules are actually functioning and if they are being enforced appropriately. For example, cartels and restriction of resale prices are illegal and these are internationally established rules.

However, in Japan are not construction project discussions an accepted practice? It is not unusual for competing manufacturers to raise prices periodically all together, and quite recently too, waiting until after the election and as if they had acted together, many of the business circles decisively raised prices together. Is this not a cartel? This included both public and private sectors. The official price system where the manufacturer participates in establishing the distributor's price and the establishment of a desired retail price are established as customs and there are many businesses that are rigid about the price. Is this not the restriction of the resale price?

As we can now ask from these examples, is the system for exposing acts in violation of the Anti-Monopoly Law adequately set up? Even if acts in violation are brought to light, doubts arise as to whether or not there are adequate measures taken for their elimination and suppression.

Doubts like these have been raised by domestic specialists for some time, and it goes without saying that they are pointed out by the European Community (EC) and by the United States. However, it has come to be recognized generally that Japanese-style application can only make the Anti-Monopoly Law rules function moderately well. Behind this is the existence of a deeply rooted social consciousness of "mutual dependence" that values order and harmony in a group.

The characteristic feature of the operation of the Anti-Monopoly Law is not the judicial applications that presuppose conflicts that have traditionally been expected, but an administrative type application that resolves issues between the Fair Trade Commission and industry in a semi-conciliatory manner or with administrative guidance-like application. There are virtually no lawsuits for damages from injured parties and even those suits that are brought all end in defeat for the plaintiffs. In the kerosene cartel incident our memory is still fresh that the Supreme Court placed a responsibility for proof on the consumers that was in reality impossible and handed down the decision that the demand for damages was not fully within its jurisdiction.

The main acts in violation of the Anti-Monopoly Law are also crimes, but in order to prosecute for those acts it is necessary to have a complaint from the Fair Trade Commission. However, accusations by the Fair Trade Commission are nearly fruitless and the structure that corresponds to indictment even in the Public Prosecutor's Office has not been provided for. There are many cases that resolve incidents with informal admonitions and warnings by the Fair Trade Commission, even more than decisions that order the cessation of illegal practices formally as legal measures. With the 1977 revision of the law it became possible to order cartels to pay penalties but with informal treatment of incidents it is impossible to order their payment.

Nonetheless, there are questions about any anticipated preventative effect of fines. In the case of the construction project discussions about the United States military's Yokosuka Base, as opposed to the total amount of the fines of only about 300 million yen, the demand for injured party damages by the United States Government in the amount of 5 billion yen was paid without a formal fight and that ought to indicate to us the reality of this situation.

First Strengthen the Fair Trade Commission

In order to change this situation it is necessary to increase the enforcement power of the Fair Trade Commission. The Fair Trade Commission is smaller and weaker in both budget and staffing than other government agencies dealing with industry. With this battle array, making the rules of the Anti- Monopoly Law function in all industrial sectors is in reality, impossible. First of all, creating a substantive investigative structure that will expose illegal acts by better arming the Fair Trade Commission is called for.

And then, there is a necessity to return the emphasis of the application of the law to formal legal mechanisms. Administrative guidance-like legal application also has merit in that it produces operational efficiency, but with its opaque aspect, easy operation is lost, and it also has the big fault that it lacks restraining power. Especially in order to increase restraining power against cartels, reform of the penalty fine system and the active employment of indictments and demand for penalties are called for.

In order to improve the function of the system for damages it is necessary to have a fully complete support system by the Fair Trade Commission in order to overcome the difficulty of presenting evidence by plaintiffs.

Furthermore, the maintenance of a system for obeying the Anti-Monopoly Law on the corporate side is also very important. There is no reason that Japanese companies operating in the United States cannot do in Japan what they are already doing in the United States. It is not merely alright if they just simply avoid illegal acts, but a reform of the consciousness of corporations is necessary so that they preserve and foster the rules of competition positively.

Similarly, these are also appropriate for the other agencies dealing with industry, and if respect for rules and a loosening of regulations occurs in agencies which are able to influence strongly the actions of industry, this will no doubt be a big step forward for a functional improvement of the Anti-Monopoly Law.

White House Warms to Kaifu Administration

902B0181A Tokyo SANDE MAINICHI in Japanese 29 Jul 90 pp 35-37—FOR OFFICIAL USE ONLY

[Article by Muneichi Suzuki, political reporter: "The Kaifu-Bush Relationship"; first paragraph is Suzuki introduction]

[Text] **The strategy of Prime Minister Kaifu to endear himself to President Bush has been successful, and the White House is now praising him by saying "this is the birth of the first real prime minister since Yoshida." However, quite naturally voices have begun to be raised that question "whether it is proper for the prime minister to be extolled by foreign leaders."**

The image of President Bush supporting and encouraging Prime Minister Kaifu was clearly visible at the Houston summit and in the Japan-United States summit meeting just before it .

President Bush praises Prime Minister Kaifu, saying, "He's doing a good job. He is a man who keeps his promises," and that "a partner like him is hard to come by."

It is reported that those close to President Bush have commented "this is the birth of the first prime minister since Yoshida. There has never been such trust in the U. S.-Japanese relationship as at present." Those comments spread quickly through Nagatacho.

However, this Kaifu-Bush relationship—we can call it a honeymoon—was very stiff in the beginning.

In August of 1989, when the Uno administration was replaced by the Kaifu administration, the White House reaction was "we haven't heard his name very much." Or, even "Kaifu, who?" Moreover, it is said that there were a number of reports from the U. S. Embassy and the CIA that said "Kaifu is an unimportant figure," and "he has no political power." For President Bush, in an era where ever since the Reagan-Nakasone Ron-Yasu relationship it has become strangely customary to be on a first name basis, they say "just when Bush finally got to be able to learn the hard-to-remember names of Noboru and Sosuke, then he had to deal with Toshiki. It's enough already!"

On the other hand, Prime Minister Kaifu whose political power base was weak, had been thinking about "a strategy to have Mr. Bush become his good friend." Right after he took office, Prime Minister Kaifu proposed, through Ryohei Murata, Japanese ambassador to the United States, that he visit the United States. In their meeting in September where he just "rushed in," he made a good first impression. President Bush said, "he's not bad after all. He says clearly what he wants to say. He has an extremely honest nature." Because the beforehand reports were so bad, he made an unexpectedly good impression.

The part where he said that Mr. Kaifu says clearly what he means to say seems to have been a comparison with former Prime Minister Takeshita. Mr. Bush said later to his staff, "Mr. Takeshita was very somber and he was hard to talk to. Mr. Kaifu is easy to talk to." It goes without saying that within this statement there is the hidden judgement that "Mr. Kaifu is easier to handle than Mr. Takeshita."

The Foreign Ministry, which had also been worried about this first meeting heaved a sigh of relief, saying, "It was good. The Prime Minister presented himself wonderfully." However, "Mr. Bush was observing the situation," as he waited to see whether or not Prime Minister Kaifu would get through the general election. Reports were saying he might be defeated, or if victorious, that the victory would be a narrow one and that his government would be shaky.

In January of this year Prime Minister Kaifu wanted to go to the United States and he put out a feeler. His aim was to display a steady U. S.-Japanese relationship prior to the general election. However, the blunt answer was "I cannot meet with you due to scheduling." Probably the analysis at work for the President was "it is not advantageous to support the unstable Kaifu administration." Now it turned out however, that the Liberal Democratic Party (LDP) won a big victory—far bigger than had been foreseen—in the general election. Immediately thereafter, on the evening of 23 February, there was a telephone call from the President. This call did not take the diplomatic route as usual, but was a call without prior notice with a translator standing by. The call went to the government residence and then to the official residence of the prime minister, and when they were informed he was at the Hotel Okura, they called there.

"Congratulations on your election victory. I am going to Palm Springs next Sunday, can you meet me there?" According to a high ranking Foreign Ministry official, this phone call from Mr. Bush to Mr. Kaifu was forceful in nature. "I don't have much time, please meet me there right away."

Prime Minister Kaifu jumped right on this. There was such a flurry that he went before he had even been appointed prime minister in the Diet.

The November off-year elections where foremost in Mr. Bush's mind. Every two years the entire House of Representatives, and one-third of the Senate comes up for reelection. Accordingly, the Japanese-U. S. friction which could be damaging in the election had to do with the structural impediments question.

"In Palm Springs in California the President requested Mr Kaifu. to 'take responsibility and do something' about a number of problems still outstanding such as public works spending." Then, as is widely known now, came the call to "help me."

"Since your election is over, I want you to understand my position." I too am being beaten till my head rings by the faction taking a hard-line against Japan. I have to fight against them. I want you to help me. In return I will help support your administration."

Ichiji Ishii, parliamentary vice minister at the Ministry of Foreign Affairs, interprets this exchange in the following way. "In the first place, it means getting by in the near term and trying to act and understand the position of the other at election times. For Mr. Bush propaganda was necessary that the United States was gradually making its points. That is the meaning of his statement that Mr. Kaifu is 'doing a good job.'"

Kaifu keenly grasped this delicate point, and he began to move, following along this line. Following Palm Springs, more than 240 items of the United States demands for Japan were leaked by the U. S. side and were played up in the newspapers. There was the feeling that Japan had been engulfed by the pace of the United States. The Finance Ministry retorted "Absolutely not! This is domestic interference at its worst." And, in the end, it came to nothing.

A month later, at the start of April, the interim report from the structural impediments negotiations was compiled. Because this very broadly incorporated the demands of the United States, the U. S. side was all smiles.

Senator Danforth, the point man of the Republican Party's Japan-bashing, told Mr. Tetsuo Kondo of the Komoto faction, who was visiting the United States, "the interim report is wonderful. It is well done. If the final report has the same policies, and Japan puts them into practice, the deficit reduction and improvement in the trade balance will be up to us. Please convey my regards and this message to Prime Minister Kaifu."

Similarly, Linn Williams, deputy trade representative, said "Until now, even though we had the Maekawa Report, and though we had been given written and oral promises, they were not accompanied by actions. Since Mr. Kaifu became prime minister he has brought us, for the first time, an implementation program."

We can see this connection also in the statements the President made in the last part of June to Shintaro Abe who was visiting the United States in order to attend a ceremony marking the 30th anniversary of the Treaty on Mutual Cooperation and Security.

"Thank you for helping and for getting the cooperation of Prime Minister Kaifu. There would have been no interim report without your help. Furthermore, please continue to give him your help."

From these remarks we can see the actual situation is that Prime Minister Kaifu is a figurehead, and is being driven by his subordinates, who have the real power.

On 26 June the structural talks ended and finalized a public works expenditure of 430 trillion yen,—455 trillion yen if JR and NTT are included. The President called the prime minister and said ,"As you indicated your staff did a good job. The result was as you said it would be."

We can see that the 430 trillion yen was "the intended line" reported to the United States by the prime minister in advance.

Furthermore, Secretary General Ichiro Ozawa gave considerable support to the prime minister at home. He said to "act decisively in the negotiations. If there are any problems bring them to the party."

"Be A Prime Minister Who Can Say No"

Well, having banged away successfully, next comes a pat on the head. The following communication was received from the President prior to the summit.

"Come a day early. Please set aside some time. I want to talk at length—just the two of us."

Originally the prime minister's departure was scheduled for the evening of 7 July, with the evening of 8 July set aside for the pre-meeting welcoming party, with the summit program scheduled for 9 July. So departure was rescheduled for 6 July, and the 7th was set for an unusually long conference with the President. The President expressed his concern for Mr. Kaifu saying "Isn't Mr. Kaifu in a pitiable situation." His meaning was the NATO leaders summit in London took place just before the Houston summit and six of the leaders—from the United States, Great Britain, France, West Germany, Italy, and Canada had just finished a summit first round. "Mr. Kaifu was the only one from outside to suddenly fly in, so let's allow him plenty of time for contact."

Speaking of Mr. Bush's good offices there is also this story. His son, John Bush, as leader of a Florida economic delegation visited Japan twice, last fall, and again in June. Of course the prime minister intended to meet with him. But, there was the following communication from the President.

"There are investment and development-related topics to be discussed and I do not want you to have any adverse domestic reaction as a result of talks, so it is perfectly alright if you do not meet with him. I am terribly sorry for causing you any trouble." As a result, John Bush returned home without meeting with the prime minister.

It was in this kind of atmosphere that the White House, as we touched on earlier, stated "this is the birth of the first real prime minister since Yoshida. Mr. Kaifu is a great leader who has brought trust to the U. S.- Japan relationship. Toshio Yamaguchi, hearing this sputtered, "That's idiotic. It's Kaifu's lucky star, that's all. He ought to grow up and get some power of his own. All he can do is buy time."

Even more critical in his comments was Hiroshi Mitsuzuka, former chairman of the Policy Affairs Research Council. "What results will come out of the prime minister being praised by the leader of a country with which we are negotiating? And, what if, pulled into Bush's reelection strategy events occur which are not beneficial to Japan? What will happen to our national interest?"

Mr. Mitsuzuka explains further: "Concerning the public works expenditures of 455 trillion yen, we will very quickly find that we have insufficient materials and a labor-force shortage and indications are that we will have incredible inflation. It is fine if financial policies and the economy are in good order, but if this ties into inflation this will be a big negative for conservative politics." He concluded by saying "When I was in Washington and met with the foreign correspondents they had nicknamed Mr. Kaifu 'director of the Bush faction,' or 'Mr. Yes-sir.' There is no good reason for a country's prime minister to be in that position. Since he is in the position of being a member of the top leadership, he has to build a system where he can say exactly what he wants.

Ichiji Ishii, parliamentary vice minister at the Foreign Ministry, offered this frank assessment. "He cannot long

continue as 'Mr. Yes-sir.' For example, with rice, he can not say yes so easily. He will dig his own grave by continuing to say only yes. Furthermore, I want him to be a prime minister who can say no."

Recently Tetsuo Kondo pointed out the following.

"Bush and Kaifu are much alike. They both lack charisma, and they have hidden behind their predecessors, and have not said boo. However, while they did not stand out, they continued their hard work slowly and steadily and reached the top position. Mr. Kaifu doesn't pretend to be important but he has impressed United States politicians as an honest prime minister. That is in contrast to Japan's economic power, which puts it in the category of a superpower. Where I would worry about Prime Minister Kaifu would be when he gains confidence and starts to think of himself as a great politician."

Yes, history teaches that the danger for Japan is precisely when it starts to think of itself as a great power.

Other Countries

* Reasons for Resumption of Loans to China

902A0245A Tokyo SANKEI SHIMBUN in Japanese 16-18 Jul 90—FOR OFFICIAL USE ONLY

[16 Jul 90 p 1]

[Article by Nobuaki Hanaoka: "Measure for Maintaining Political Power of Kaifu"]

[Text] The third loan package to China which had been frozen due to the Tiananmen Square incident of last June will be resumed shortly. At the Houston summit, Prime Minister Kaifu and Japanese delegates strongly maintained that Japan be allowed to unfreeze the loans, and other countries had to acquiesce.

Why was Japan in such a hurry to resume the loans while other countries were questioning their propriety? This is one of the questions unanswered at the last summit. But, studying the Japanese situation reveals that it could be a strategy for Kaifu to maintain political power. At the last summit, there were different views between Japan, and the United States and European countries on the issues of China, the Soviet Union, and agriculture. As for the Soviet issue, Japan, the United States and the United Kingdom were in agreement. And as for the agricultural issue, the tripolar conflict among Japan, Europe and the United States has become somewhat resolved.

However, as far as easing the sanctions on China is concerned, it was only Japan which maintained that they should be lifted. It is reported that French President Mitterrand had a heated discussion with Japan stressing that easing the sanctions could not be done. However, President Bush said in the closing ceremony that he could not stop Japan.

Facing the drastic changes in the Soviet Union and Eastern European countries, the last summit extolled the "victory of democracy, and defeat of socialism and communism." It exalted the superiority of values such as liberty, human rights and equality commonly held by the West.

Therefore, the United States and the European countries were critical of the Chinese oppressive attitude and questioned the reason given by Japan for being in a hurry to unfreeze the loans.

Prime Minister Kaifu gave the following reasons: 1) recent Chinese efforts for democratization such as release of Mr. Fang Lizhi; 2) the stabilizing effect on Asia by avoiding isolation of China; 3) assistance to Chinese revisionists. However, the more Japan stressed the special relationship between Japan and China and strongly advocated the need for easing the restrictions, the more the United States and the European countries appeared to consider it out of step with the times.

The third loan package was committed to China in 1988 when then Prime Minister Takeshita visited China. This follows the first loan of 330.9 million yen for the period of 1981-83, and the second loan of 470 million yen for the period of 1984-89. The third loan will provide China with a fund of 810 million yen in the coming six years for projects including construction of dams, power plants, fertilizer plants, and waterworks. Mr. Takeshita has strongly campaigned for resuming the loans. He said to the director of Communist Party International Liaison Department who visited him before the summit, "I am the one who made the promise originally and will endeavor to realize the resumption of the loans." Mr. Takeshita seems to feel strongly about the need for bettering Japan-China relations. since the Tanaka-Takeshita faction has maintained strong communications with China since the normalization of the relationship in 1972 which was spearheaded by then Prime Minister Tanaka.

Since April, Kazuo Aichi (Takeshita Faction), LDP [Liberal Democratic Party] director, International Bureau; Koichi Kato (Miyazawa Faction), former director general of the Defense Agency; Michio Watanabe, former chairman of the LDP Policy Research Council; and Uno, former prime minister, visited China. These people established foundations for resumption of the loans. They also tried to get credit for being intermediaries as they expected better relations to be resumed between the two countries.

There was not any opposition at all when Prime Minister Kaifu expressed his desire for lifting the freeze. This might be because there was a strong desire by industry to reenter the gigantic Chinese market. A legion of industrialists has visited China recently.

Within the LDP, some say that even the United States and the European countries want to trade with China. In fact, U. S. and European companies have made phenomenal entries into the Chinese market. As background, there is the philosophy that "politics and business are separate" among Westerners. However, in the political

arena, they espouse human rights in the spirit of "The Samurai betrays no weakness when starving."

In Japan, the LDP and industry collaborated to declare the need for lifting the freeze.

Prime Minister Kaifu has overcome his weakness by obtaining support from the Takeshita faction which is the biggest faction. The Kaifu regime even looks like a stabilized power now. When the entire party supported lifting the freeze, particularly when Mr. Takeshita spearheaded it, the prime minister simply had to accept it.

It is said that foreign policy is an extension of domestic policy. I wonder if Kaifu extended his domestic policy to foreign policy without regard to the concern that there may be something lacking in the Japanese democratic thinking.

[17 Jul 90 p 1]

[Article by Shuji Sotoyama: "Aim To Recover Investment"]

[Text] A businessman said, almost talking to himself, "Japan is the most suitable country in the world to lead in avoiding isolation of China. The reason is that it has the longest history of associating with China."

This was in the context of the lifting of the freeze of the third loan before the Houston summit. When the relation between Japan and China is discussed, this kind of peculiar situation is stressed.

There are many businessmen who think that China is the country which Japan is most deeply involved with, and the history of interchange between the two countries is much longer than that of America and the European countries. Mr. Kazuo Haruna of Marubeni says, "Japan should not forget that it is a member of the Western allies as well as a member of the Asian community. The opinion that Japan has a contradictory policy for China and the Soviet Union is not correct." Prime Minister Kaifu stressed the geographical proximity by saying, at the post-summit press conference, "Japan, as a neighbor, must cooperate with China for its economic reform." Foreign mass media criticized that Japan is cool to the Soviet Union and too lenient toward China.

However, aside from emotional aspects such as this, it cannot be denied that economic considerations were given to this issue.

Within the last few years, Japan has been very active in making direct investments in China. This was promoted by the new Chinese policy, adopted in the beginning of 1988, that it would expand its special economic zones and delegate the responsibility for inviting foreign capital to local governments.

This was also promoted by the official Japanese decision for the third yen loan package in August of the same year. That was the time when then Prime Minister Takeshita visited China and signed the Japan-China investment protection treaty.

This has created the environment in which industries can make investments more easily. Besides, CoCom [Coordinating Committee on Export Controls] regulations were relaxed, which allowed establishment of joint ventures for VCR's, communication equipment, cutting edge technologies such as LSI [large-scale integrated circuits], and the signing of technical licensing agreements. It was a time when the means for economic interchange between Japan and China was expanding in both quality and quantity. It was helped by the Japanese fund supply and establishment of legal order.

The Tiananmen Square incident occurred at a time when major companies were launching big projects. Western countries immediately imposed economic sanctions against China. How has that affected the Chinese economy?

The growth rate of GNP in 1987 and 1988 was high 10.6 percent and 11.2 percent respectively. However, in 1989, it plummeted to 3.9 percent. Industrial production decreased from 20.7 percent growth to 8.3 percent.

Although China adopted a tight policy to suppress rapid inflation caused by deregulation, there is no doubt that the sanctions on China promoted the slow-down.

The third loan package involves 42 items including power plants, railroads, bridges, ports, fertilizer plants, etc. The strengthening of the infrastructure with items such as those will eventually revitalize Chinese production.

For Japanese industries, the third loan package is an essential element on which they base their decision to invest in China. The later the decision to unfreeze the loan is made, the longer it takes to recover the investment for Japanese industries.

One executive of a major trading firm says, "Chinese foreign currency reserve exceeded $20 billion at the end of March. China is adopting an easy money policy. The worst of the economic situation is over. Even partial unfreezing will promote the Chinese economy."

It was rumored that European countries including France were going to give new credit to China and outsmart Japan. Japan could not wait any longer to unfreeze the loan; the summit was an absolute deadline.

President Eishiro Saito of the Federation of Economic Organizations visited Kaifu before the summit and urged him to unfreeze the loan. This is not just out of sympathy but is an economic consideration. It was rumored that Mr Saito was very happy when the decision about unfreezing was made.

[18 Jul 90 p 1]

[Article by Hiroshi Sasagi, economic reporter: "Independent Diplomacy or Risk Taking"]

[Text] At the post-summit press conference, President Bush and Prime Minister Kaifu showed a difference in nuance in the matter of China. They were in agreement concerning aid to the Soviet Union and Latin American countries.

Prime Minister Kaifu stressed that the Japanese contention that China should not be isolated was recognized by other countries, and announced the early lifting of the freeze of the third loan package. However, President Bush pointed out that the economic sanction which was decided at the summit last year still remains in the economic declaration. He further said, "I could not stop Japan from lifting the freeze of the loans." He made it clear that he agreed to acquiesce but did not agree with Japan that Japan should unfreeze the loan. There is a reason for this.

Last December, President Bush dispatched presidential aide Scowcroft to China, and he and Deng Xiaoping agreed to improve relations. However, the Congress reacted to this. Chairman Solarz of the House Asia Pacific Subcommittee criticized it, saying, "President Bush is taking a condescending attitude toward the Chinese Government when China has not met the American demand for democratization."

It took Secretary Baker's statement that the United States would continue sanctions against China to make things settle down. As demonstrated in this case, there is a wide discrepancy concerning China between the government and Congress and the American people. There is a strong possibility that the acquiescence will be criticized.

One high official of the Ministry of Foreign Affairs interpreted the acquiescence given by President Bush and Prime Minister Thatcher as follows: they have decided to have Japan make its own decision on China in the framework of Asian diplomacy. There must be a cautious attitude on the part of America and European countries against independent diplomacy of Japan concerning China. The interpretation is that this caution has been overcome by the Japanese economic strength and changes in the world situation.

Former President Nixon, who visited China last October, submitted a memo to President Bush explaining the merit of removing the sanction ahead of other countries. In that memo, he enumerated seven items including: 1. Can we afford to have Japan and European countries exploit the Chinese market; 2. It is beneficial to America to be friendly with a country which will become an economic and military superpower in the 21st century. It further said that the close relationship between China and the United States is essential for the United States to maintain a balance with Japanese influence in Southeast Asia.

It can be said that President Bush disregarded the advice made by Mr. Nixon. There is an opinion that America yielded to Japan on the matter of China, in return for the Japanese cooperation on aid to the Soviet Union and Latin America. If the Japanese action alarms the U.S. Congress and industry, there may be a strong opposition within the U.S. Government.

The Ministry of Foreign Affairs explains the merits of lifting the freeze of the loan as follows: 1) It neutralizes the Chinese mistrust of Japan; 2) It removes the idea of Asian countries that Japan follows America and demonstrates Japanese leadership to those countries; 3) It meets the request of ASEAN countries that Chinese isolation be avoided; 4) It silently pressures the Soviet Union with the knowledge that Japan has a close relation with China. However, it further says that there will not be any merit in lifting the sanctions if the Japan-U.S. relationship is damaged.

If the reason that Japan made every effort to obtain recognition for unfreezing at the summit is to pursue its independent diplomacy, it was epoch-making for a Japan which had been following America. However, if Japan is in a hurry to lift the freeze, pushed by the LDP and industry, you cannot deny that the Japanese Government is also taking a risk.

Private Sector Cautious of Trade With USSR

OW1209033090 Tokyo THE DAILY YOMIURI in English 10 Sep 90 p 8—FOR OFFICIAL USE ONLY

["Economic Perspective" column by Susumu Matsumoto: "Soviet Trade Risky Venture"]

[Text] Soviet Foreign Minister Eduard Shevardnadze arrived in Japan last week to iron out details for Soviet President Mikhail Gorbachev's visit next April, creating the expectation of better business relations with the Soviet Union.

Businessmen have so far refrained from becoming deeply involved in the Soviet market, waiting for the dispute over the northern territories to be resolved.

Eiji Suzuki, president of the Japan Federation of Employers' Association (Nikkeiren), said earlier this month that businessmen should be considering economic cooperation with the Soviets. "I think the business atmosphere now is far different from the past when businessmen strictly observed the government's policy of not cooperating with the Soviet Union unless political issues between the two nations were resolved," Suzuki said.

But Takashi Ishihara, chairman of the Japan Association of Corporate Executives (Keizai Doyukai), said businessmen should continue their policy of withholding cooperation from the Soviets until the territorial dispute is settled.

Eishiro Saito, chairman of the Federation of Economic Organizations (Keidanren), said the discussion over whether or not businessmen should support the government's efforts to settle the dispute is meaningless.

In reality, many companies are already doing business with the Soviet Union, he said.

While the three business leaders do not appear to have said anything particularly controversial, in fact, their comments display a major shift in the attitudes of businessmen toward the Soviet Union. In the past they had pledged to refrain from any economic cooperation until the territorial dispute had been settled.

A Tokyo businessman currently engaged in trade with the Soviet Union said the time had come for the government to extend protection for the risks private companies were undertaking.

"Private companies are establishing joint ventures in the Soviet Union, but the Soviet economy is in danger of collapsing. Companies cannot bear all the risks themselves," he said.

"Foreign Minister Shevardnadze asked Japan to help the Soviet Union improve its infrastructure in the Far Eastern parts of the nation during his meetings here. But the private sector cannot take on the whole burden of helping the Soviets build roads and railroads, so obviously he was implicitly asking for financial aid from Japan," he added.

Gorbachev and Prime Minister Toshiki Kaifu have to seek solutions to these problems along with the territorial dispute before they meet in Tokyo in April.

Departing Romanian Enovy Visits JCP Quarters

OW1209140890 Tokyo JPS in English 0943 GMT 12 Sep 90—FOR OFFICIAL USE ONLY

[Text] Tokyo Sep 12 JPS—Yasuo Ogata, member of the Presidium and head of the International Department of the Japanese Communist Party [JCP] on September 11 met and held talks with the Romanian Ambassador to Japan Constantin Vlad, who visited JCP Headquarters to announce that he was leaving his post.

LDP, JSP Officials on Upcoming DPRK Visit

OW1609024690 Tokyo MAINICHI SHIMBUN in Japanese 15 Sep 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Text] With "a joint delegation of the Liberal Democratic Party (LDP) and the Japan Sociaiist Party (JSP)" to be led by former Deputy Prime Minister Kanemaru and JSP Vice Chairman Tanabe set to visit the DPRK (North Korea) beginning 24 September, a MAINICHI SHIMBUN reporter interviewed Hajime Ishii, acting chairman of the LDP Foreign Affairs Research Council, and Wataru Kubo, vice chairman of the JSP, who visited North Korea as members of an advance party earlier this month, on the results of the advance party and the prospects for Japanese-North Korean relations. In the interview, the two expressed strong confidence that the No. 18 Fujisan Maru issue certainly would be resolved and indicated bright prospects for progress in bilateral relations.

[MAINICHI SHIMBUN] What is the significance of the first visit by the LDP to North Korea?

Ishii: We held approximately 30 hours of energetic talks with the North Korean side. We saw the talks as providing the best chance for improving relations between the two countries. Although the two countries cannot restore their relations, they have a chance to resolve the only remaining postwar issue. I think that Japan's diplomacy is at a very important stage. The improvement in Japanese-North Korean relations is of great significance from the standpoint of easing tensions on the Korean peninsula and ensuring the security of all of Northeast Asia.

[MAINICHI SHIMBUN] What prospects are there for resolving the No. 18 Fujisan Maru issue?

Ishii: Mr. Kanemaru intends to visit North Korea with the aim of resolving the humanitarian No. 18 Fujisan Maru issue. I think that if this issue and Japan's compensations for the past are not separated, this will become an important problem. I believe that Mr. Kanemaru shares my view. He is seeking to resolve the Fujisam Maru issue and then be able to say: "I have resolved the issue. I want to make a hole in the tightly closed door."

[MAINICHI SHIMBUN] There are negative views among officials at the Foreign Ministry. What is your opnion?

Ishii: Diplomats are sticking to the basic policies of their nation. They are operating in an atmosphere that forces them to see North Korea as a hostile nation because of Japan's relations with South Korea and the Western system. I think this is a point of difference between politicians and diplomats. Officials in charge of foreign affairs need to change their conception and deal with matters in a flexible manner.

[MAINICHI SHIMBUN] Then, do you think that political decisions are required for improving Japanese-North Korean relations?

Ishii: Our latest meeting with the North Korean side was a case in which political decisions were made first. Although we have carried out parliamentary diplomacy, this was the first time that we had engaged in such tough diplomatic negotiations.

[MAINICHI SHIMBUN] If political decisions are required, is Mr. Kanemaru a suitable person?

Ishii: The North Korean side appears to have made various surveys. It is a good idea to allow Mr. Kanemaru to lead the joint delegation in view of the factions within the LDP and the relationship between the ruling party and opposition parties.

[MAINICHI SHIMBUN] What is the prospect for resolving problems concerning the establishment of liaison offices in the two countries and the deletion of a mentioned item on Japanese passports, which prohibits travel to North Korea.

Ishii: There are some matters that require discussions and technical examinations between working-level officials of the two countries; they are problems that cannot be resolved only by politicians of the two countries. We have mapped out measures to resolve these problems. I hope that the two countries will reach agreements on resolving the problems through behind-the-scenes negotiations, giving priority to problems that can be resolved immediately.

[MAINICHI SHIMBUN] How do you think Japan should apologize to North Korea for its colonial rule in the past?

Ishii: If Mr. Kanemaru apologizes, it will have a greater effect than if the prime minister or the foreign minister apologizes (laughing). If Prime Minister Kaifu apologizes at the Diet, citing particulars of the past, it might be something more definite and official. We decided to examine the issue of how to apologize to North Korea after returning home.

[MAINICHI SHIMBUN] The LDP held talks with the Workers' Party of Korea [WPK] for the first time. How did the WPK side respond to the talks?

Kubo: They showed an intention to positively improve Japanese-North Korean relations. The LDP attended the talks with a positive outlook, and, as a result, the atmosphere at the talks was good. The WPK maintained its faith in our party, saying that "we want to respect what the JSP thinks." The WPK did not argue against proposals put forth by the LDP because they had been discussed with our party beforehand.

[MAINICHI SHIMBUN] What is the prospect for improving relations between the two countries?

Kubo: Japan should first apologize and offer compensation in order to improve relations with North Korea. This is a basic position of the Republic [North Korea]. The LDP and the JSP are in agreement on this point. Among other things, Japan should be clear on this point. We are not at a stage yet in which the delegation to North Korea can settle any matters between the two countries, and there are many matters that still have to be settled through governmental negotiations. With regard to the establishment of liaison offices in the two countries, an idea advocated by Mr. Kanemaru, they should not be simple trade offices but venues through which the two countries can negotiate. The two countries should use these offices to discuss the compensation issue and resolve the pending issues of direct flight service and communications satellites. The delegation's upcoming visit to North Korea will be a starting point for discussing pending issues between the two countries within this framework.

[MAINICHI SHIMBUN] How do you think Japan should apologize?

Kubo: The Republic's side has been demanding that "the apology should be made officially and directly in a way that it can understand." It has said that any apology in the form of Diet testimony is "good." However, I think that such an apology is not direct in nature. It depends on the government as to how the apology should be made.

[MAINICHI SHIMBUN] Will the No. 18 Fujisan Maru issue be resolved?

Kubo: When (a JSP delegation went to North Korea) in July, the WPK expressed the view that "it would be possible to resolve the issue in a humanitarian way." At that time, we were confident that the issue would be resolved without fail. The WPK expressed its view in clearer terms during our recent visit to North Korea. There is no need for us to debate on when the issue will be resolved.

[MAINICH SHIMBUN] It can be said that the opposition's diplomacy has achieved results.

Kubo: The JSP is working not for the sake of itself, but for the sake of peace and stability in Asia. We were charged with the task of paving the way for exchanges between the two countries, an important assignment, and I think that we fulfilled our assignment.

[MAINICHI SHIMBUN] Is there any resistance within your party to the formation of a joint delegation with the LDP.

Kubo: Some officials within our party may feel that the JSP will not be able to put the final touches on what it has worked on so far. The ruling party and the opposition party have their own areas. We have to be satisfied with reaching agreement with the government and the ruling party on their sitting at the negotiating table [with North Korea].

Political Affairs

* Articles Assess Kaifu Administration

* Kaifu Portrayed as Soft

902B0170A Tokyo ASAHI JOURNAL in Japanese 6 Jul 90 pp 19-22—FOR OFFICIAL USE ONLY

[Article by Keigo Okonogi, professor, Keio University]

[Text] As a citizen, I will discuss the image of Prime Minister Kaifu as seen in TV programs and newspapers.

First, a clean image. A series of incidents from the Lockheed scandal to the Recruit scandal has created in the skeptical mind of the public an image of an entrenched Liberal Democratic Party [LDP], pulling off sweet deals without the public's knowledge.

However, on the other hand, the people feel comfortable when the Liberal Democratic Party is in charge of the administration and they also expect that this party will probably do a good job. With this in mind the people hope that an LDP politician with a clean image will stand at a distance from the party's interests.

The profile of Prime Minister Kaifu meets such a popular need. He belongs to a small faction. This fact itself is enough to prompt an assumption that he has distanced himself from the party's interests. In this sense, it sure was a really clever personnel move for the LDP to seat Kaifu in the prime minister's post.

Moreover, Kaifu himself, acting with full understanding of his role, is reported by the media to take political reform seriously as his mission. This also adds to his popularity among the people.

Second, from my "caretaker" argument, Kaifu truly emerged with an image as a "caretaker prime minister." No one ever thought that he would mature into a true powerholder of the LDP. Instead, people figured that he was a temporary person in charge of an administration neede to weather the crisis of the government and the ruling party.

He did not appear to be in a position to wield power in a long-term stable administration or remain in the seat of power for a long period of time. Rather, it was thought that someone else would eventually assume such a role. He presented the image of a temporary player being used until the permanent one comes along.

However, such a stance is attractive to the people. Kaifu, in the position of being a caretaker prime minister, has given a sense of security to and demonstrated sympathy with the people. People trust his image that he will neither exercise strong power, act dictatorially against the wishes of the people nor strongly impress his identity.

Also, that kind of image meshes with the views of the general public. His neutral and less self-assertive approach stemming from the factional equilibrium is accepted in good faith by the people.

Third, Prime Minister Kaifu's image works well in a TV age. Screens show this man, for instance, at his press conferences and on the Diet podium, earnestly trying to explain the administrative views as logically as possible, in language that can be understood by the people. I have a feeling that such a person is an unexpectedly rare species in the LDP.

President Bush also presents this same image. I have a favorable opinion of Bush in that he, just like Prime Minister Kaifu, is patient and answers rationally and earnestly in soft voice, and easy-to-understand language.

Kaifu is still in his fifties. His youth was spent during the early postwar days, so his view of life is influenced by the peace Constitution. Already even in the LDP, any revision of the peace Constitution in the direction of rearming is rapidly diminishing. The image of Prime Minister Kaifu can truly identify with that of a new generation in a peaceful Japan able to carry the burden of administration of our country.

Fourth, compared to past prime ministers, Kaifu and his wife appear to be an average middle class man and wife in the eyes of the public. Also, the image of the couple hints that his wife is slightly more outgoing and social than he is, which itself reflects the reality of the Japanese middle class home.

When considering a matter, the husband hangs back and the wife actively makes suggestions, let's do this and let's do that. The husband nods, fine, fine, and that's the way the couple makes decisions. This perception is a comparatively friendlier image of the prime minister's wife in the eyes of women than past prime minister's wives presented.

No matter how we look at him, Kaifu does not present an image of great fatherhood and paternal authority. This is the psychological issue that I would like to discuss as the fifth factor.

Generally the 21st century is said to be an era of women's power. This is a common trend in the advanced nations. It is anticipated that conversion from a patriarchy to a matriarchy will evolve. Gradually men are losing the paternal authority and women's power has started to ascend.

Under this circumstance, a politician who emphasizes the paternal principles will be regarded as an anachronism. A prime minister who tries to exhibit powerful Western leadership, or a prime minister who is like a Japanese father with the ability to control his followers discreetly in spite of an apparent absence of self-assertiveness, is beginning to be outmoded in the mind of the Japanese people. The desired image of men today is that of a flexible man who can work with a strong woman.

The image the Kaifus present suggests this trend. The macro-view of Japan's political situation, on the other hand, indicates a rising movement of women's power represented by Takako Doi who is attempting to change the present condition. The father image representing the old paternal principles and the image of a father who manipulates a male society behind the scenes does not present the proper personae for a woman's partner or an opponent. We have now entered an age when people expect an image of men who can deal with, speak to, or act in harmony with women on an equal basis.

Viewed in this way, Kaifu's image is very interesting especially when couple it with the image of Takako Doi. There is a possibility that in the depth of people's minds they commonly imagine such a couple leading Japan's politics.

From now on, men who convey a profile such as that of a chauvinistic male will probably have no future as

politicians. I am afraid that men who spill their true feelings out as soon as the birthrate goes down, saying, "It is caused by the increased number of women with a higher education" or "Women should return to the home," will no longer be qualified to lead the government.

Explaining it from analytical psychology, men have more feminine traits than before while women have more masculine traits than before. The combination of Takako Doi and Kaifu seems to complement one another according to these gender images.

* Stabilizing Kaifu Regime

902B0170B Tokyo ASAHI JOURNAL in Japanese 6 Jul 90 pp 22-24—FOR OFFICIAL USE ONLY

[Article by Teruo Nishimae]

[Text] In Europe, there is a phrase, "Oath of Hippocrates." This means, as originated with the father of medicine, Hippocrates the Greek, that doctors should not indiscreetly leak the condition of a patient's disease to outsiders. Particularly in the case of influential politicians, the oath of Hippocrates is well kept and patient's conditions are hard for outsiders to guess at. Three years ago in Japan, secretive aids and the news-gathering media engaged in a information battle over the rectal cancer of Kazuo Tamaoki, director general of the Management and Coordination Agency. Director General Tamaoki died as an incumbent minister.

Paradoxically, in today's political condition, the rumor about the poor health of Abe, the man considered most likely to succeed Kaifu, and the head of the second largest LDP faction, is promoting stability in the Kaifu administration which was originally considered weak.

LDP sources have made the following statement concerning Abe's health.

"His neck is thin, and his face and chest have not recovered and filled out following his surgery. Abe keeps saying he is 'tired' without reservations even in front of high ranking officials. He takes strong medicines and gets sleepy around 2 or 3 o'clock in the afternoon."

However, people around Abe deny the poor health theory.

"He has not been able to recover from his mounting fatigue because he went back to work and did too much too soon after he was released from the hospital. If he were seriously ill, he could not have played six rounds of golf over three days in May in Hawaii. He shed some fat in the tummy, and he looks rather trim."

Director Hiroo Yamanaka, Juntendo Hospital of the Juntendo University where former LDP Secretary General Abe is supposedly going for medical care, replied through his secretary in response to the inquiry of this journal, "I have not received a report on the recent condition of Abe's illness. I cannot discuss it since it is a private matter."

Former Secretary General Abe was hospitalized and operated on at the Juntendo Hospital in April of last year for common bile duct calculosis (gall-stones). After a three-month hospitalization, he vigorously worked during the two changes of administration and the general election although there were concerns about his health. In January, he stole the "Soviet card" from Prime Minister Kaifu and met President Gorbachev in an attempt to boost the centripetal force of the administration. He also hoped that there would be an Abe administration ready for Gorbachev's visit next year. In those days, remarks were made that both "Abe's real administration" and "Kaifu's provisional administration" were working independently.

Until immediately after February's general election, "Kaifu toppling" meant "the erecting of an Abe administration." That was understood because the Takeshita faction, in support of the Kaifu administration, the Abe faction and Watanabe faction, which aimed to succeed "after Abe," agreed to first set up "an Abe administration" in anticipation of the return of the pendulum of the generational change to its original point.

Former Secretary General Abe visited the Unites States as a special envoy for the 30th anniversary of the signing of the Security Treaty and demonstrated that he was in good health. However, in addition to the rising approval rate of Prime Minister Kaifu, the belief that Abe is in poor health has still not been erased. A dietman who recently met Abe at a party whispered: "Abe did not drink Sake but ate plenty Nobody knows the real condition of his illness. However, what is at issue is whether he can recover his health enough to endure the hefty work of a prime minister and a party president at the time by the next year's general election in autumn."

There are only three options for the general election in the fall of next year, "continued pitching by Kaifu," "new generations younger than Abe, such as Hashimoto and Ozawa," and "new leaders such as Abe, Miyazawa, Watanabe, and Takeshita." The condition of Abe's health sheds a delicate shadow on these options.

Originally, former Prime Minister Takeshita was believed to be in pursuit of his restoration after an "Abe administration." However, with Abe's poor health, he has revised his restoration strategies making use of the "Abe card." He is pressured by the urgency to snatch the administration for his own. Former Chief Cabinet Secretary Kobuchi, Takeshita's staff member says, "I would like to see Takeshita in the driver's seat once more." However, the men in the Takeshita faction are critical of any such restoration.

Before his visit to the United States in March, former Prime Minister Takeshita was scolded harshly by former Deputy Prime Minister Kanemaru, "What, regaining power? Are you still dreaming about such nonsense! You

better remain an adviser for good." It is also rumored that the Takeshita-Kanemaru relationship has sustained a crack and important information is having difficulty reaching Takeshita from the Kanemaru-Ozawa line. The relationship between former Prime Minister Takeshita and former Secretary General Abe is also not as intimate as before. Abe was enraged when the "Abe special envoy" plan for the U.S.-Japan Structural Impediments Initiative [SII] talks launched by Takeshita did not materialize. As Abe was so furious, Takeshita confronted him, "Why don't you hit me?"

Former Secretary General Abe fears that the unfriendly relationship between Takeshita and Kanemaru is inconvenient because of his belief that the minimum condition for acquiring the administration is the consolidation of the Takeshita faction. However, it is said that recently Abe has had better contact with former Deputy Prime Minister Kanemaru than with former Prime Minister Takeshita and has shifted to the Kanemaru side. Former Deputy Prime Minister Miyazawa is also quickly moving toward Kanemaru. Miyazawa is changing, although he was once reportedly uttering in a drunken state, "I will roll Kanemaru in a straw mat and throw him in the river" to a press person who had the night watch duty [to check Miyazawa's campaign camp] before the general election. Watanabe also visited China and tried to demonstrate his presence as the head of the faction in preparation for the "next turn."

The prerequisite for the "new leader" option at the general election was the factional unification under former Secretary General Abe. New leaders have been split due to their anxiety over Abe's poor health as well as the endorsement of Prime Minister Kaifu by Kanemaru and Ozawa, and tend to be inching toward former Deputy Prime Minister Kanemaru. Amid the political reform mood motivated by the Recruit incident, heads of factions confront difficulty in openly collecting political funds. New leaders have also been weakened by the infamous "adeptness" demonstrated to domestic and foreign watchers before the general election in collecting 30 billion yen through LDP General Secretary Ozawa.

Kanemaru, because he wants to realize an Ozawa administration, and Ozawa, because he wants to cultivate his real ability by staying on as general secretary, will support the Kaifu administration for the time being. Kanemaru viewing a plentitude of Kaifu successors proposed the "reelection of Kaifu" in order to keep Kaifu from being toppled by new leaders. Political commentator Minoru Morita says:

"New leaders can only confront a Kaifu reelection by forming a coalition. As long as Kanemaru and Ozawa endorse Kaifu, they have no excuse for toppling Kaifu. Three years ago, Abe and Miyazawa lost the chance to become prime minister because they depended on the ability of Nakasone. They may very well be crossed again this time even if they pursue Kanemaru and give their complete allegiance to him."

Who would have expected that the Kaifu administration, jokingly termed as a stop-gap administration, would sail toward being a full-fledged administration?

* U.S. Hopes for Frail Cabinet

902B0170C Tokyo ASAHI JOURNAL in Japanese 6 Jul 90 pp 22-23—FOR OFFICIAL USE ONLY

[Talk by Daizaburo Hashizume, assistant professor, Tokyo Institute of Technology]

[Text] Let's suppose we are going to play a card game of Napoleon. Somehow, Prime Minister Kaifu becomes Napoleon. In the game, the majority opposition gangs up on the minority Napoleon camp to unseat him. Then, Napoleon, according to the basic rule, will try to firm up his position by assigning his co-player, called his deputy.

For Prime Minister Kaifu, his deputy may be former Prime Minister Takeshita, former Deputy Prime Minister Kanemaru, or Secretary General Ozawa who is a substitute for both Takeshita and Kanemaru. However, in a larger sense, America is playing the key role of the deputy with the U.S.-Japan SII talks. Kaifu's party foundation is frail, and any error will immediately destroy his administration. In order to prevent that, America has thrown a particularly "hard ball" called the U.S.-Japan SII talks. From the beginning, bargaining outlines have been charted, and Kaifu's credit shines when he clears up the fake "hard issue" proposed by America.

Until now, Japan's policies have been determined by the interfactional coordination of the LDP. Simultaneous equations have been complex but there was no room for an outsider called America to squeeze itself in. That was inconvenient for America.

In the post-Cold War condition, Prime Minister Kaifu will fit perfectly with President Bush's strategy. Bush has been patiently watching Kaifu. The telephone call from Bush immediately after the general election was made to alter the conventional LDP policy-making mechanism based on the factional theory. The American offer was quite convenient for Kaifu who acted the part of Napoleon because he was able to exhibit his original "American card."

On the other hand, if America is Napoleon, Japan is recognized as a very capable deputy from the aspect of its world strategy. The post-Cold War implies U.S.-USSR cooperative control of nuclear arms. By the joining of hands, the U.S. and the USSR both can cut their military spending in half. First, they will experiment with U.S.-USSR cooperative control of nuclear arms in Europe, then proceed to the Middle East. They will settle the account with Asia at last since various factors are involved, for instance, China, North Korea (Democratic People's Republic of Korea), and Japan.

For this purpose, America feels it an obstacle to see the burgeoning of extreme nationalism tied to the local communities in Japan. In America, there is a perception

that the LDP is the same as the old time military, and they are afraid that the multiple-seat electoral district system run primarily by individual support groups will make it difficult for the LDP to overcome its emphasis on local communities.

America's main interest is issues. Although the SII talks deal with economic issues, actually they are anxious to address political issues. It is convenient, at such a time, to have Kaifu as the leader on the frail party foundation.

I would not be surprised if America had introduced the plan for the single-seat electoral system. There is no system which is harder for America to control than the Japanese political system. America hopes that a two-party system can be created to enable alternation of administrations so that Japan becomes politically homogenous to America.

It is doubtful if Prime Minister Kaifu is aware of this. The introduction of a single-seat electoral system may be the equivalent of the prime minister digging his own grave since a strong opposition party may be born from it. However, Kaifu at least knows that his administration can last as long as he hits the ball back to America.

* Watanabe Troubled Over Nakasone's Return

902B0166A Tokyo SANDE MAINICHI in Japanese 8 Jul 90 pp 35-37—FOR OFFICIAL USE ONLY

[Article by Muneichi Suzuki]

[Text Secret Strife in Nagatacho; The Anguish of "Micchy" Watanabe, Who Turned Back Nakasone's Bid To "Return" as an Honorary President

There was drama in mid-June concerning former Prime Minister Nakasone's "return" to his faction. The factional members directly connected with Nakasone, such as Mr. Takayuki Sato and Mr. Takeshi Noda, sought his return as honorary president. However, President Watanabe refused the request, and had Mr. Nakasone merely retain his status as a recognized member of the faction. Behind this decision was Mr. Shin Kanemaru's advice to be cautious of Mr. Noboru Takeshita's possible reinstatement as the next step after Mr. Nakasone's return.

It is reported that former Prime Minister Yasuhiro Nakasone is feeling lonesome these days. In May of last year, before the advent of the Uno administration, Mr. Nakasone himself announced that he was going to leave both the party and the faction. In the election in February, in the midst of concentrated attacks demanding, "butcher the big criminal," he fought successfully and with firm resolve, like a new Diet member. However, the view is strong that "although Nakasone has gained a seat in the Diet, he is completely ignored by the influential figures of the present administration, such as Kaifu and Kanemaru, and that this is unbearable to him."

On 29 May, a birthday celebration for Mr. Nakasone sponsored by Seikaken (the Watanabe faction) was held at the Akasaka Prince Hotel. Nakasone, once a young officer, had turned 72 years old. During remarks at the celebration, Nakasone mentioned the word "solitude": "Beethoven composed many symphonies such as 'Eroica,' 'Destiny,' and 'Pastoral.' They all conclude with the Ninth Symphony's 'Joy' as a finale. I wonder if Beethoven portrayed man's life that way. If that is the case, I get the impression that there is no solitude in Beethoven. Maybe he didn't need to compose solitude, because he was completely solitary himself. Recently, I have been deeply reflecting that there is, indeed, such a thing as solitude in a man's long life."

Mr. Sadanori Yamanaka, a loser in the last elections, made some humorous remarks when he proposed a toast following Mr. Nakasone's remarks.

"Right now, Mr. Watanabe is doing a good job caretaking during Mr. Nakasone's absence. He recently has learned to take care of his hair rather properly, and also to speak each word carefully. Unlike Yamaguchi's mustache, I think Mr. Watanabe has acquired something very significant."

He was referring to Mr. Toshio Yamaguchi, who recently started growing a mustache. Many people, however, appeared to have been offended by the expression "caretaking during Mr. Nakasone's absence."

In as much as the faction sponsored his birthday party, whether Mr. Nakasone belongs to the faction or not should not have been an issue. When Mr. Nakasone saw President Watanabe and Vice President Takushi Hirai, he asked, "How does a chance of my return to the LDP look?" Mr. Nakasone himself earnestly wished to return to the party.

However, since the beginning of June, following the birthday party, Mr. Nakasone's return to the party has become an issue. This came about following a face-to-face discussion Deputy Executive Secretary Takayuki Sato had with Mr. Watanabe in the executive secretary's conference room on the third floor of the house building. Mr. Sato suggested, "Speaking of Mr. Nakasone's return to the party, it is difficult to obtain a perfect consensus. But if it is a return to the faction, we don't need to feel restraint toward anyone. Let's bring him back to the faction first. Let's bring him back in a way which does not appear strange to third parties."

Mr. Sato prides himself on his achievements in getting the Watanabe faction started off smoothly. Mr. Sato, who volunteered to talk with Mr. Nakasone by saying, "I'll go," persuaded Mr. Nakasone right after the election in February to leave both the faction and the party.

"Now that the election is over, isn't your task one of grooming your successors, given your high position? I'm sure you feel attached to the faction, because you established it. But you can not turn back time. Days keep passing."

At that time Mr. Sato assured Mr. Nakasone that, "Even if the faction becomes the Watanabe faction, you are the founder. We won't let anyone ignore you or deny your existence. We would like you to eventually guide the faction from a suitable position, such as honorary president or supreme adviser. Wouldn't that be the way to bring your career to a successful conclusion?"

Furthermore, Mr. Sato went on saying, "The current Diet session ends at the end of June. Let's settle this matter during this Diet session. I'll be responsible for that."

Mr. Nakasone responded by saying, "I see. I'll leave it up to you."

Mr. Sato immediately reported the content of this dialogue to then-President Yoshio Sakurauchi, to Mr. Watanabe, and to Mr. Toshio Yamaguchi. This foreshadowed the recent drama.

Judging from the fact that Mr. Nakasone wants to return to the faction as honorary president or supreme adviser, the view is strong that Mr. Nakasone wishes in his heart to "rule over the faction just as Kakuei Tanaka once did" over his faction. Even though former Prime Minister Tanaka was not a party member or a supreme adviser, he ruled over the most powerful faction and held the authority to recommend faction officials, among other things.

Nevertheless, there arose voices against this practice within the faction, especially among the younger officials. And since Mr. Nakasone did not do much to look after the younger officials during his time as prime minister, Mr. Nakasone's relations with his faction were clearly different from former Prime Minister Tanaka's relations with the Tanaka faction.

Such remarks have been heard: "A person who has served as prime minister and party president for 5 years should speak from a higher level than the factional level." And further, "It was because of the disadvantage of being part of the Nakasone faction that caused 12 of our party colleagues to be defeated in the election. Shouldn't Mr. Nakasone act prudently, at least while his closest assistant, former Chief Cabinet Secretary Fujinami is on trial?"

Attentive to Mr. Kanemaru's Efforts To "Eliminate Takeshita"

On 18 June, Secretary General Toshio Yamaguchi brought a directory of the Seikaken to the executive secretary's conference room in the house building. This directory was compiled when Mr. Sakurauchi was president, immediately after the election. Mr. Nakasone, Mr. Sosuke Uno, Mr. Kenzaburo Hara are all listed in this directory. Mr. Takao Fujinami alone declined to be listed, saying, "Please eliminate my name, because I'm afraid that having my name listed in the directory will bring trouble to my colleagues." His name in the directory was crossed out.

In response to Chief Secretary Ichiro Ozawa's question, "Is there a lot going on within the faction concerning the issue of Mr. Nakasone?" Mr. Yamaguchi explained thus: "They say that it isn't an issue because Mr. Nakasone's name is registered in the directory like this."

It is evident that at that point President Watanabe and Secretary General Yamaguchi decided to settle the issue by merely bringing Mr. Nakasone back to the faction, without treating him as honorary president.

This decision was reported by various newspapers the following day, the 19th, as follows: "Former Prime Minister Nakasone Practically Back in Faction." Mr. Tsutomu Takebe, a second-year official, made remarks at a Watanabe faction board meeting on the same day saying, "Newspapers have reported that Mr. Nakasone returned to the faction. I have difficulty with newspapers telling me these things. What's going on?"

Secretary General Yamaguchi replied, "Mr. Fujinami has turned in his resignation, whereas neither Mr. Nakasone nor Mr. Uno has."

Mr. Takashi Sasagawa, who also is a second-year official, stated as follows: "I admit that Mr. Nakasone is the founder and parent of the faction. But we're doing fine living separate from the parent. We don't need to live with the parent, do we? We say living separate, but we are on the fourth and second floors of the same Sabo Kaikan building. We are still close enough to visit each other. We'd better leave this issue undisturbed."

Mr. Sasagawa is of the opinion that Mr. Nakasone's existence is an obstacle for a Watanabe administration. He responded in a TV interview as follows: "At his birthday party Mr. Nakasone said, 'Let's work hard to make the Watanabe administration come true.' Therefore, thinking in terms of how we can establish a Watanabe administration, in my opinion, Mr. Nakasone's return to the faction would mean the possibility of a Watanabe administration becoming further remote. It's because there is no way that the other factions or the mass media would back up Watanabe, who is closely associated with Nakasone."

At this board meeting, President Watanabe summarized as follows: "Mr. Nakasone is in the directory. We'll continue to accept his advice in consideration of his high position in the same way as we have in the past. But it is just that he will not attend a general session." In making this response, Mr. Watanabe looked truly uneasy. Observing this, one of the attendants expressed that "I can more than feel for Mr. Watanabe's burdened heart." It was not exactly a dilemma between Mr. Nakasone and the faction, but rather, it was the anguish caused by a dilemma between Mr. Nakasone and Mr. Kanemaru.

Seeking Mr. Nakasone's return as honorary president, Deputy Secretary Takeshi Noda negotiated with President Watanabe a number of times.

"The issue is not whether Mr. Nakasone will return or not. It is Mr. Nakasone's store to begin with. The point is how to treat Mr. Nakasone. It is your decision, and it is necessary to come up with a decision for the sake of factional unity."

In response, President Watanabe said, "The younger officials are against it. Also, regarding Mr. Takeshita's return being connected, I don't think Mr. Kanemaru is pleased with it."

That is correct. That, indeed, is the focus. In practicality, Mr. Noboru Takeshita has not returned to the faction. It is Mr. Kanemaru who is cautious about such a possibility, and who has been denying that there is any chance for such a thing. "My role is just to prevent Takeshita from coming back to politics and establishing a secluded government," Mr. Kanemaru confided to his close associate. With Nakasone and Takeshita's positions moving into the background, Kanemaru's position is being pushed forward that much more. Those are the current political dynamics.

Naturally, Mr. Nakasone and Mr. Takeshita are often calling and comforting each other. They played golf together by Lake Kawaguchi during consecutive holidays in May. Meanwhile, there is no contact between Mr. Nakasone and Mr. Kanemaru. Through a certain person, Mr. Nakasone requested that he would like to see Mr. Kanemaru. Mr. Kanemaru's reply then was hilarious: "How dare you come to ask such a thing knowing how I'm going to answer."

"Don't Say 'I Want To Go Home'"

A noteworthy point is that although former president of the House of Representatives, Gen Tamura, appointed Mr. Takeshita as the party supreme adviser, Mr. Takeshita has continued to refuse the appointment. The Kanemaru/Ozawa line is alarmed that " Mr. Takeshita's refusal of the appointment as the supreme adviser of the party is because he has a desire to rule over the faction. If he were to become the supreme adviser of the party, he would have to leave the faction. That is why he refuses it." It already has been mentioned that Mr. Michio Watanabe is suddenly getting close to Mr. Kanemaru. As far as Mr. Watanabe is concerned, he had to make sure that Nakasone's return would not cause Takeshita's return, and especially to show some consideration so as not to irritate Mr. Kanemaru.

On the afternoon of 20 June, at the general faction meeting, President Watanabe made a statement to settle this issue. Not typical of his regular talkative self, Mr. Watanabe was so cautious that he read a written statement.

"It is indeed surprising that the issue of the return of the first president of Seikaken, Mr. Nakasone, has caused various speculations owing to the sudden reports by the mass media concerning it. I was recommended to become the third president. I have always understood that former presidents continue to be members of Seikaken. However, I suppose that they are both keeping their distance from attending the Seikaken general meeting because of their own situations. Nevertheless, they both are great politicians with rich experience. As for me, I would like to continue to meet with them as the occasion may demand, and receive guidance from their high positions."

President Watanabe did not say that Mr. Nakasone has returned, let alone mention his treatment as honorary president. His conclusion was merely that he "recognizes Mr. Nakasone as a member."

Mr. Takeshi Noda moaned, "Mr. Nakasone ended up getting stuck on the shelf. It turned out to be extremely rude toward him."

Mr. Gen Tamura commented from his high position, as follows: "Mr. Nakasone has established a bad precedent in leaving both the party and the faction even though he is not a prisoner at the bar. However, in as much as he has already done so, even though he has been prime minister and party president, he should not lightly say 'I want to come back.' It is not respectable behavior. As for Mr. Takeshita, it is his conceit that he feels that he was able to be prime minister and party president for only a year and a half. He should be grateful for having been able to do so as long as a year and a half.

* Plan To Move Diet Meets Obstacles

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[Article by Muneichi Suzuki: "Resolution On Moving The Diet"; first paragraph is Suzuki introduction.]

[Text] **The special session of the Diet ended on 26 June, but the question of moving the capital was prominent as the curtain fell on the session. The Roundtable on the Question of the New Capital (The New Capital Roundtable), which is an organization that includes all political parties and which is chaired by Shin Kanemaru, aimed for a Diet resolution on moving the Diet, but its hopes were dashed. Behind that setback was the opposition of Shun Oide to issues advanced by Kanemaru-Tanabe policies.**

The New Capital Roundtable has 220 members from the majority parties. It has been holding meetings for 15 years and is centered around Shin Kanemaru, the chairman, and Keijiro Murata, deputy chairman.

It is an enthusiastic group and there are members from the opposition parties too, such as Vice Chairman Makoto Tanabe of the Socialist Party, Hironori Inoue also from the Socialist Party, Ichiro Watanabe from the Komeito, and Eiichi Nagasue of the Democratic Socialist Party. Since February of this year new officers have taken up the leadership duties in the persons of Hajime Ishii, former director general of the National Land Agency as vice chairman, Hosei Norota as the secretary general, and as director general, Masayoshi Takemura. They have become the center of activity.

Ever since February 1975 when Mr. Kanemaru, then director general of the National Land Agency, came up with the Kanemaru concept of "population on a scale of 555,000, area about 8,100 hectares, and the cost to move 8.8 trillion yen," it is clear that though the New Capital Roundtable has continued to meet all this time, there has been no progress at all on this issue.

At the meeting in the spring of last year, now defeated for reelection and retired former minister of construction, Kosei Amano made the following proposal. "We are not making any progress, are we? To continue to debate the issue forever is useless, so how about if we draw the curtain down here"

Flustered, Deputy Chairman Keijiro Takemura responded by saying, "No such thing. We are at the decisive stage. We are certain to make progress."

Fending off the suggestion, Chairman Kanemaru indicated the following policy.

"We are statesmen and we have grappled with this question from this position for a long time, and it is most important that we be firm in our resolve at this point. Is this not in fact a Diet decision? How about first deciding it in the Diet and then carefully conducting the investigations and research?"

His response was so forceful that those who were present felt they had "heard a statesman-like statement," and they agreed, "This is what we should do."

At that point building a consensus for a Diet resolution on moving the capital was promoted and the three opposition parties, the Japan Socialist Party, (JSP) the Komeito, and the Democratic Socialist Party (DSP) were generally in agreement. But it turns out, on the other hand, there were unexpected bushwhackers within the Liberal Democratic Party (LDP). They were the LDP's Tokyo Federation For Government Affairs Research (Tokyo Federation) and Tokyo Governor Suzuki.

There were any number of meetings between the Kanemaru group and Suzuki and his people, and when the governor asked Mr. Kanemaru if he really intended to do that, Mr. Kanemaru replied, "I am serious and intend to do it." The governor indicated his opinion as follows.

"I think the problem is important and dealing with it is necessary. However, relocating the capital would entail a great deal of work and could not be done except in the case of a huge political upheaval or great natural disaster. I think it is impossible. However, I understand if you are talking about moving some portion of the functions of the capital.

In 1989, a resolution on moving the capital did not move forward due mainly to the opposition of the Tokyo Federation.

This year, the new secretary general of the New Capital Roundtable, Hosei Norota, who came out of the Ministry of Construction and has been the chairman of the Diet's Committee on Construction and chairman of the Special Committee on the Land Question, proposed the following.

"Since they accept relocating the capital's function, let us start first with the move of the Diet. And with this no one ought to have any complaints"

This is where Norota's wisdom is apparent. The real aim was a de facto move of the capital. "With the move of the Diet, which is the highest organ of the national government, there is no reason for the administrative agencies to remain behind in Tokyo. They will definitely come along. The courts and the foreign embassies can move or stay."

This proposal was seized by Chairman Kanemaru. That was in the last part of May.

"Let us try this. Let's get the concurrence of Prime Minister Kaifu, the three top LDP executives, the leaders of the various factions, and also of the opposition parties. The maneuvering for internal LDP approval went according to plan. Prime Minister Kaifu said,"I certainly want you to move it along," and faction leaders Abe, Miyazawa, Watanabe, and Komoto all agreed.

Also Mr. Yuji Otsuka of Tokyo's First District who had been in the vanguard of the opposition faction, announced to Mr. Masayoshi Takemura "I have a problem with moving the capital, but I am in agreement on moving the Diet."

At first it seemed to be sailing along in the opposition parties too. This question of moving the capital had an unusual aspect to it in that the opposition was more enthusiastic about it than was the LDP.

For example, in the House of Councillors Special Committee on the Land Question from November to December of 1989, in the middle of deliberations on the Fundamental Land Law, the opposition unanimously stressed that "relocating the capital is inseparable from the resolution of the land question. Elimination of unipolar concentrations of population should be discussed first.

At that time Mr. Tomoyuki Fukuma of the JSP, chairman of the committee agreed with this even to the point of advocating wanting to "have a resolution on the move of the capital in the upper house." This did not become reality but on the question of establishment of the Fundamental Land Law there was a statement by committee Chairman Fukuma along those lines and the statement remains in the record of debates.

Furthermore, also in agreement, Mr. Hajime Ishii, at that time director general of the National Land Agency, established a "roundtable related to moving the functions of the capital" as a formal government organ.

In addition, at the general meeting of the The New Capital Roundtable held at the Hotel New Otani on 19 April of this year, JSP Party Secretary Tsuruo

Yamaguchi attended with Makoto Tanabe. Mr. Yamaguchi made the following statement. "At the recent JSP general conference we added the question of moving the capital as policy to our platform and it was approved. The JSP is of a mind to promote this question wholeheartedly."

The dietmembers who were there, among them other opposition party members, strained their ears and listened with a feeling of surprise. The impression was "if the two of them are together, then the JSP will move," and that the JSP intention was decided.

On the other hand, the Kanemaru-Tanabe relationship became closer simultaneously with the assumption by Mr. Tanabe of the position of vice chairman of the JSP.

Originally, it was a relationship which called for Mr. and Mrs. Tanabe to call on the Kanemaru residence on New Year's to offer their best wishes for the new year. Recently, however, problems that could be acted on by the Kanemaru-Tanabe policy line such as the question of North Korea, political reform, and the moving of the capital have become quite numerous.

An interesting view of these three problems is that "North Korea is for Kanemaru a delicate issue, and political reform is a delicate issue for Mr. Tanabe, and that moving the capital is the only issue where they share the same opinion."

Within the JSP, Mr. Hironori Inoue went to Chairman Doi and got her to say "I agree." In the Komeito, Ichiro Watanabe reported on 12 June to the party's central executive committee and the resolution passed the party's policy board on the 14th.

"The incident" occurred on 13 June. On that day, in the JSP waiting room in the upper house, Mr. Kenzo Muraoka chairman of the LDP Diet Policy Committee called on Shun Oide, chairman of the JSP Diet Administration Committee and said during their discussion, "I ask for your support, since the discussion of a resolution on moving the Diet is coming up shortly." Mr. Oide reacted very quickly. "I haven't heard that. It is too sudden, and I am not ready to deal with it."

This is where he might have demonstrated his specialty as "arbitrator," but he was told that JSP member Isamu Shimizu, a director on the Diet Committee on Rules and Administration, had not heard about it either, and Oide saw this as insufficient consensus building done by Tanabe and Hironori Inoue. However, there are those even within the JSP who say, "Oide is supposed to have known about it. He said he knew somebody was promoting it, but that he hadn't heard it himself. That happens a lot, you know." Mr. Oide supposedly said that to his staff.

"What do you mean? Tanabe is probably even trying to move it to Gunma"

On the next morning, the 14th, Mr. Oide explained it this way in the JSP Diet Administration Committee.

"Even saying move the Diet, the government agencies will have to move with it and moving the Diet is very odd since we have already decided to reconstruct the prime minister's residence in the near future."

It was clearly an expression of opposition. Also at that time JSP General Secretary Yamaguchi had entered the hospital with liver trouble brought on by exhaustion, and it was difficult to reach him.

However, neither Mr. Kanemaru nor the others in the New Capital Roundtable gave up. On 18 June Mr. Kanemaru telephoned Mr. Tokuo Yamashita, chairman of the Lower House Steering Committee and asked for the following:

"We ought to have a Diet resolution. This is something to be decided by the Steering Committee. I want you to arrange it."

"I understand and I will try," was the reply.

Mr. Yamashita, too, made all kinds of efforts but it was already too late. Then he reported as follows to Mr. Kanemaru. "It is useless until Mr. Oide, head of the JSP Diet Administration Committee agrees. There is not enough time, and I have decided that it is useless."

Mr. Kanemaru, too, finally gave up. And, in the inner circle of the New Capital Roundtable they were saying "probably nothing can be done," and "if only the JSP had held firm, we could have done it." Mr. Hironori Inoue counter-argued.

"No, that's not so. It is because the LDP suddenly introduced it into the discussions between the chairmen of the parties' Diet Policy Committees."

In order to be certain of a Diet resolution in the next Diet, Mr. Yamashita, Steering Committee chairman, set up a "committee to study the Diet relocation question and other problems," which was to be attended by members at the Steering Committee director level. Then, on 28 June, during the recess, he revealed preparations for holding their first meeting. Mr. Kanemaru was told that Mr. Oide was opposed to the fact that political affairs were being conducted around a Kanemaru-Tanabe line.

Move By Start of 21st Century

How will it develop in the future? Keijro Murata says "there will be a resolution in the special session of the Diet in the fall and after that we will submit the New Capital City Construction Promotion Law (the bill's temporary title). Then we will gather together Japan's leaders of experience and learning and set up an advisory organ under the direction of the prime minister. Then we will decide on possible sites and freeze land prices, set the time for the move, and decide what Tokyo should look like after the move. I want to do that in about three years, so we will be able to move at the start of the 21st century.

Since Mr. Hosei Norota says he already has a roster of advisory committee members and a draft bill at his disposal, the plan is good. Mr. Norota explains the conditions for the new capital this way.

"A place where the geological conditions and area are appropriate for a capital city. A place where there is no fear over the long term of natural disasters such as earthquakes and volcanos. In order not to trigger a jump in land prices most of it will be designated control areas or will be national or public land. It will be a place where the water supply is assured.

The National Land Agency's secretary general, Kotaro Kitamura, states these conditions more concretely. "It will be an hour from the great population centers of Osaka and Tokyo. Not more than an hour, at the most, from an International Airport. A place where the population is between about 500,000 and 600,000."

It should be like Washington, D.C. with its population of 710,000, or Brasilia with 760,000. And then probably the linear motor train soon to be practical will link the airport, the population concentrations, and the new capital.

Well then, what do we do about the imperial palace? Mr. Ichiro Watanabe has the following view:

"We will move the palace last. However, the present palace will remain as it is in Tokyo and probably will become a temporary palace. It will be preserved as is the imperial palace in Kyoto."

Finally, let's hear from Masayoshi Takemura.

"The present feeling of people is that they have had enough of politics. The entire political structure must change radically. We can use the opportunity of moving the capital to create a new structure and arrangement of politics and administration. Even more, in deciding to make this huge public investment of 430 trillion yen, I think we see a chance that won't come again."

* Interfactional Contacts Increase Within LDP

902B0198A Tokyo YOMIURI SHIMBUN in Japanese 17 Jul 90 p 2—FOR OFFICIAL USE ONLY

[Text] Recently, there have been interfactional contacts within the LDP [Liberal Democratic Party]. The leading role has been played by the Takeshita faction, the largest faction in the party, whose movements are said to hold the key to the political situation. It has been explained, "we are just promoting mutual friendship because it has been a long time since we have had such a calm political situation," (a leader of the Abe Faction). The consumption tax, the Recruit scandal, the House of Councillors election, the general election, and the House of Representatives election have taken up a lot of time, or another reason is "we have nothing particular to discuss," (a leader of Takeshita faction). However, rumors come and go that each faction is "casting an amorous glance" at the Takeshita faction through golf competitions and social gatherings, watching for the expected political movement that will occur when party President Kaifu's term of office expires at the end of October next year.

Recent Interfactional Contacts Within LDP

4 July	Golf and Social Gathering of Leaders of Takeshita and Miyazawa Factions
4 July	Social Gathering of Leading Members of Takeshita and Abe Factions
25 June	Social Gathering of Leaders of Takeshita and Watanabe Factions
4 June	Social Gathering of Leaders of Takeshita and Abe Factions
30 May	Golf and Social Gathering of Leading Members of Takeshita and Miyazawa Factions
20 May	Golf and Social Gathering of Leaders of Takeshita and Watanabe Factions

There were about 10 known occurrences of such interfactional golf and social gatherings, after the consecutive holidays in May. They characteristically involved the Takeshita faction and one other faction—Abe, Miyazawa or Watanabe. Participants emphasize that they have no other intention, saying "We don't talk politics while playing golf," (a leader of Miyazawa faction), or "We just drink together," (a leading member of Abe faction). However, it does not seem to be only "just getting together that counts," (a leader of the Miyazawa faction). There was one scene where a certain leader of the Watanabe faction was canvasing for "cooperation in establishment of a Watanabe administration" at a social gathering of leaders of the Takeshita and Watanabe factions held on 25 June.

It is also true that the Takeshita faction is being careful not to lean toward one side, such as on 4 July, when leaders of the Takeshita and Miyazawa factions played golf together, and leading members of the Takeshita and Abe factions met at a social gathering that same evening.

It is uncertain whether after Kaifu's term ends power will return to the old generation, such as former Secretary General Shintaro Abe, or be passed at one stroke to the new generation. It seems that interfactional contacts have, therefore, become active in order to establish conduits and collect information. But there is another aspect to it: when former Minister of Finance Kiichi Miyazawa attempted to contact former Deputy Prime Minister Shin Kanemaru (secretary general of the Takeshita faction) after a long silence, suspicion spread around the party, accelerating interfactional contacts.

So far, only the Takeshita faction does not have anyone who might publicly stand as a candidate after Kaifu. Moreover, Mr. Kanemaru and Chief Secretary Ozawa have been displaying their influence within and outside of the party, and because the power of former Prime Minister Takeshita cannot be ignored either, each faction must be hoping to strengthen its connection with the Takeshita faction. In such a climate, some in the party

are saying, "Mr. Kanemaru has gained too much power. The present LDP is totally dominated by the Kanemaru-Ozawa line."

LDP Discuss'ing Constitutional Amendment

WA11090240 Tokyo TOKYO SHIMBUN in Japanese 29 Aug 90 p 2—FOR OFFICIAL USE ONLY

[Unattributed article in the "Scope" feature: "Liberal Democratic Party [LDP] Discussing Constitutional Amendment To Pave the Way For 'Dispatching the Self-Defense Forces [SDF]'"]

[Text] Within the LDP, heated discussion has been taking place over amending the Constitution in connection with Japan's contribution in the Middle East crisis. Following the statement made by former Deputy Prime Minister Kanemaru supporting the dispatch of the SDF to the Gulf, Executive Council Chairman Nishioka on 28 August talked about amending the Constitution. Moreover, there are opinions in favor of preparing new legislation to pave the way for dispatching the SDF. On the other hand, some dietmen are resorting to more cautious measures of "supporting the United Nations' peace-keeping operations" rather than sending the SDF abroad. Further discussion is expected after the government discloses its contribution measures on 29 August.

At the press conference at noon on 28 August, Nishioka expressed his desire to discuss amending the Constitution as an urgent LDP task. He said: "We need to prepare our laws so as to deal with situations like this. I think we cannot avoid problems involving the Constitution."

However, because of the strength of the opposition camp, many LDP members fear that it will be difficult to amend existing laws. Rather, LDP members may be using this international crisis to weaken Japan's deeply rooted public "allergy" of amending the constitution, and to pave the way for new legislation allowing emergency measures.

Ozawa the previous day stated: "In accordance with the United Nations Charter, it is possible to dispatch the SDF to areas of conflict under existing laws." Nishioka is not necessarily agreeing with Ozawa in his interpretation of laws, however, but both agree that "discussions should be held over dispatching the SDF abroad."

On the same day, at meetings held by LDP Executive Committee and the Policy Research Committee, attended by offices concerned with foreign affairs, strong opinions were expressed, emphasizing the need to search for ways to amend legislation. This reflects the disposition of LDP executives.

The LDP executives think that "since Japan is now an international power, we should step up our contributions to peace in the world."

However, at the Executive Committee meeting, Hyosuke Kujiraoka, former director of the Environment Agency and a soft-liner, pointed out: "If we are to follow a UN-centered foreign policy, then we have to support the peace mission advocated by UN Secretary General de Cuellar. What we are doing now is nothing but following the United States." He insisted that Japan should persuade the United States to restrain its military actions rather than dispatching the SDF. At the combined meeting attended by offices concerned with foreign affairs, "opinions were divided" on the issue of dispatching the SDF, according to Takamori Makino, chairman of the Foreign Affairs Section.

After the meeting, Kujiraoka told reporters: 1) The SDF was established for defense against invasion and cannot be sent abroad; and 2) he is against amending the Constitution as well as dispatching unarmed SDF officers. Kujiraoka clearly opposes Ozawa's ideas.

Moreover, some LDP members fear "hardline statements by party executives may incite the Iraqis to harm the Japanese hostages," according to a core member of the Miyazawa faction.

Because the opinions of LDP members largely influence the government's mid-to long-term policies, we should pay attention to the future discussions of LDP members.

* Reexamining Principles of Komeito, DSP

902B0194A Tokyo TOKYO SHIMBUN in Japanese 2 Jul 90 p 2—FOR OFFICIAL USE ONLY

[Text] The reexamination of the general party principles of the Komeito and the Democratic Socialist Party (DSP) is in progress. The focus of the reexamination is how to alter the definition of the term "socialism." The term is used in the ideology of Komeito as "humane socialism" and in the objectives of the DSP, it is used as a method "to accomplish a socialist society." This controversy reflects the impact of the collapse of socialism in the Eastern European countries. To alter the definition of the term seems easy but to accomplish it will surely take a while. The Komeito is aiming for an official announcement of a change at the party conference the end of November and the DSP is aiming for next spring. The reexamination of the term is considered "homework" in the political world where summer vacation starts early.

The Komeito announced a "middle-of-the-road principle" at the party conference in April. In order to develop the "middle-of-the-road" concept in the context of the times, party Chairman Ishida suggested reexamination of the general principles, saying, "How about examining our use of terminology?" In May, the party established a "general principles committee" (the chairman is Secretary General Ichikawa) and began a discussion of its principles. The committee is planing to finish drawing up a draft of the new principles by the end of September.

The present general principles were established at the eighth party congress in 1970. It is a simple text, totaling four articles and 300 characters. It describes the party character as "a national party which respects humanity and a middle-of-the-road concept." The general principles stated that the Komeito's ideal social structure is "an economic system which will allow free economic activities based upon humane socialism and will guarantee a fair distribution of the result of a free economic system."

The Komeito's interest is focused on the expression of "humane socialism," after the collapse of socialism in the Eastern European countries. The theory behind changing the terminology is as follows: "We should eliminate the word 'socialism' because it presents a certain image," (a party leader). This image is universally accepted.

However, the Komeito founder Mr. Daisaku Ikeda (the chairman of Soka Gakkai religious group) said "humane socialism is the trend of the time." When his opinion was reported in the Soka Gakkai newsletter, some reacted negatively. There still exists a deep-rooted opposition which states that "the term is not a concept of socialism. We do not have to change our terminology, because socialism is a doctrine of a 'humane society,'" (a senior leader).

Meanwhile, The DSP established a "new life committee" to examine party reform and reexamine the party general principles. The most acceptable plan is to change the word "socialism" to "democratic socialism."

The present general principles were adopted in 1962. The principles include expressions such as "to make efforts to establish a socialist society."

Therefore, ex-party Chairman Tsukamoto has been insisting on deleting the word "socialism," saying: "In Japan, there is little distinction between socialism and communism. The word has been generally misunderstood."

Previously Chairman Nagasue showed some reluctance to reexamine the principles by saying, "Socialism as a general principle means democratic socialism." However, the majority of the "new life committee" and the DSP members are in favor of eliminating the term "socialism."

The reexamination consists of changing the word "socialism" to "democratic socialism" and also rewriting the principles in easy modern Japanese based upon Chairman Ouchi's recommendations.

The "new life committee" has been asking for ideas from the intelligentsia during the summer. The committee is planing to make the new general principles a basis for discussion by October.

* Article Looks at JSP's 'New Wave'

902B0168A Tokyo AERA in Japanese
10 Jul 90 pp 6-9—FOR OFFICIAL USE ONLY

[Article by AERA Editors Hideo Hamada and Yuri Oiwa: "Young Thoroughbreds—Will They Control the Old Horses?"]

[Text] The members of the Japan Socialist Party's (JSP) "New Wave" group of freshman dietmembers are meeting amidst backbiting and restrictions. The new sensibility—new type human beings or the urban resident faction—runs up against the old system permeated with dependency on labor unions. Can this youthful power change the JSP? There is also the admonition, "Don't forget your first resolution!"

Bullying

Even Secretaries Not As Expected, JSP's Watchful Eye

Around springtime the following rumor circulated among JSP dietmembers: "A blacklist of new dietmembers is being whispered among the drivers. Everyone on it is a member of the New Wave."

The freshman "New Wave" dietmembers have a bad reputation among the drivers of the public cars distributed to each of the parties in the Diet.

Liberal Democrtic Party (LDP) dietmembers use the cars often, but give a tip each time of 1,000-5,000 yen as a "pourboire." JSP dietmen until now have not given tips and, in turn, have not used the cars much. But it seems that the New Wave members, as active as LDP dietmembers, use the cars often but do not tip.

It is said that when New Wave member Tamako Toguchi handed a list of places to visit to her driver, he thrust it back at her saying, "I'm not going to drive around that much."

Situation of "The Nail That Sticks Out is Hammered Down"

One New Wave member says that in his life he has never been so insulted as in the two months following the general elections. It is a change from the status of amateur. Asked to "give new blood to the JSP," he threw his hat into the ring. But he was criticized by his electoral district's party leaders as "a candidate parachuting in from elsewhere."

Even now he is continually asked, "Thanks to whom were you elected?" One time he answered, "Thanks to everyone." Angered, the questioner responded, "Wrong. Thanks to the JSP."

They feel somehow "the party's restrictions." The first were [the matter of choosing their] secretaries. The party's rules state that, "dietmembers appoint their secretaries, but the approval of prefectural and central headquarters is necessary." One new Dietmember had wanted to choose his secretary from the ranks of the

citizen group together which he had fought his campaign with. However, a secretary with experience as a local JSP legislator was recommended to him: "We'll have a problem if it's not someone with a long career in the party." The rules were behind the recommendation. The Dietmember thinks that at least he should choose his private secretary himself. But he was told, "If so, think about not running in the next election."

A senior local party official says that "traditional power relationships and customs are also important. What's going on with these youngsters lately? They say whatever they please, such as, 'It would be good to have Satsuki Eda (Social Democratic Union Representative) as our next chairman,' even though Chairwoman Doi is in good health."

JSP Dietmembers Association Chairman Hironori Inoue blew up around a month ago at a meeting of the Central Executive Committee. New Wave supporters were in attendance at a study group on international issues. It appears that some member alerted Inoue that Eda and dietmembers from the Komeito and Democratic Socialist Party (DSP) were also participating and that "that kind of talk [concerning Eda as the next JSP Chairman] came up in conversation."

A senior JSP official winced, saying that the contents of the party's meetings would end up leaking to the mass media through the New Wave dietmembers. Slandered, watched, suspected.... A certain New Wave member let slip that, "It would be more useful to go home and return to my main occupation."

A nail that sticks out is hammered down.

Power To Plan, Power To Act

Picking A Fight: Submitting Proposals to Party With None

The actions and declarations of the New Wave members certainly stand out. For example, members Yoshito Sengoku, Hideko Ito, and others bit into JSP policy on the commercial law revision proposal submitted in the latest special Diet session. The content of the proposal was to raise the minimum capital figure in the case of establishing a corporation from the present 350,000 yen to 1 million yen in order to put the brakes on easy incorporation done with the aim of reducing the tax burden.

The JSP's policy was to oppose the proposal, justifying it as "protecting small and medium companies." However, Sengoku thought that, while the government's proposal was inadequate, the JSP should approve it. He emphasized that, "It won't do if a manager doesn't plan on having 1 million yen. An increase in the responsibility of small and medium companies—capital being society's property—strengthens companies." But his argument did not go down well.

Both Sengoku and Ito have backgrounds as lawyers. From the real practice of law they have come to see the reality of deficiencies in laws. From that they have challenged the JSP leadership, raising the banner of "just argument." However, within the party there are old Diet upper house members bound up in the interests of the small and medium enterprise groups.

In the words of a mid-ranking Dietmember, "it is unreasonable for the freshmen dietmembers to push through their thinking without even preparing a consensus." They are running into a wall.

New Wave's Tax System Reform Plan, Toward Formal Debate

However, there is some drawing of the New Wave's opinions. When the [opposition's] four related bills to abolish the sales tax were rejected in the Tax System Problems and Investigation Special Committee on 21 June, all the New Wave members presented under their signature a position paper to the JSP's Central Executive Committee, Diet Steering Committee, etc., requesting that the leadership "produce quickly a fundamental tax system reform plan to replace the sales tax."

That [proposal] was not allowed to end as an abstract argument. One member, Nobutaka Tsutsui, put together a "Fundamental Tax System Reform Plan" on 27 pages of B4 paper. He is proposing the systematic introduction of a retail sales tax like the one in America.

The JSP's Financial Policy Committee decided to formally examine Tsutsui's reform proposal in its tax system project. Committee Chairman Sanji Muto relates that, "For a freshman Dietmember's proposal to be formally taken up as an object of discussion in an authoritative party organ is an epoch-making event. We are adopting good things right along, so I greatly encourage and praise this."

On reform of the electoral system, those interested—Motohisa Ikeda at the center—put foward the position paper that the party should examine a system combining single-member districts and proportional representatives. The party Central Executive Committee only replied that "correcting the numbers [of Diet seats] must come first," but recently, perhaps aware of public opinion, has begun expressing the recognition that it is necessary to deepen debate within the party on this problem. Election Policy Committee Chairman Kanji Sato displays an active stand: "The New Wave group's position papers are in the lead when we have internal party debates. It's important that all the new people state their opinion once they gained experience on the job."

At a 26 June meeting of JSP dietmembers, Chairwoman Doi hammered down the nails. She recognized the New Wave group's strength in action and planning. However, were they realistic or not? Her thinking seemed to be that what the New Wavers were all criticizing was that debate was not open when the party made decisions and that the Diet party conducted Diet politics "behind closed

doors" with the Liberal Democratic Party (LDP), but that they had never really experienced such difficult work.

Vice Chairman Makoto Tanabe—who should be called the representative figure of Diet politics—consulted with concerned members of the New Wave. "You guys hang in there. I'm doing my best, too."

Tanabe is said to have advised them that way. Even the Central Executive Committee entertained the newcomers' demand. The JSP study committee sections related to financial policy and defense, customarily halted when the Diet is not in session, were opened on a par with those of the LDP.

Colorful Faces

Coming to Crucial Point on Escaping Party

There are nine lawyers in the New Wave group. Kikuko Suzuki, after being a housewife and an employee of a college preparatory school, passed the judicial examination on her eighth try at the age of 45. At her first Diet committee meeting, she rose in interpellation 12 times.

Her father passed away when she was in the sixth grade. When she was an eighth grader, the business her mother was managing went bankrupt. She did not go to school, but worked in a tea room. "The time I studied the most in my life was when I was behind one year in my third year of middle school. Full of confidence, I entered Hibiya High School. But there was nothing but disagreeable people there. I worried that I couldn't make it. The first time I attended a meeting of the New Wave group, I thought the same thing."

In the New Wave group, there are specialists in each field competing to be the best within the party. Masanori Goto, for example. He is a doctor specializing in hygiene. At the time of the 1989 Health Insurance Reform, as a party witness he testified in the Diet upper house.

Tadatoshi Akiba taught topology in America for nearly 20 years at Tufts University and elsewhere. During that time, he realized his "Akiba Project" of inviting American journalists to Hiroshima to have them deepen their understand of the atomic bomb.

"From time to time I was asked by the JSP, so I ran under the JSP banner. If I had been asked by the LDP and had had the chance of winning election, perhaps I would have run as an LDP candidate."

Sengoku, who experienced the Student Record trial and the Peace Can Bombing Incident [TN: The second incident refers to a terrorist bombing in which the explosives were packed in a can of Peace-brand tobacco] gives his analysis: "New dietmembers usually don't have their own network of connections to answer petitions from back home, so the support of a political boss is necessary. Therefore they create factions. As the New Wave has a number of distinguished people, they know many people in the ministries and agencies of Kasumigaseki, and they don't have the need [for factions].

Pursuing Social Democracy Seriously

When Shuo Matsubara was asked to run for office in 1988 by the party's Nara Prefectural headquarters, Chairwoman Doi went to meet him. "I shut myself in Yasuda Hall. I was arrested [TN: A reference to his arrest for occupying the main hall of Tokyo University during protests against the U.S.-Japan Mutual Security Treaty] and sentenced. Is it all right to run even with such a background?"

"The past has nothing to do with the present," he was told. He decided to run for office.

He emphasizes that, "Our group is seriously pursuing the party line of social democracy and changing the party into a governing party."

Nor is the New Wave group attached to the labor unions. Differing from the JSP up to now, there are members taking independent stands on relations with China, the Soviet Union, and so on. They are people who, in the upper house reversal between the ruling and opposition parties, have come in a new era when the self-recognition as a "responsible opposition party" is demanded.

On 26 June, taking the opportunity of the Diet being closed, a general meeting of the New Wave group was held. Receiving appeals, Toguchi was the last to rush to the meeting. She ended her address with the following: "We are now watched with great interest by people outside the party who hope that the JSP may change. Without being crushed, we have been able to learn easily. The crucial point comes hereafter. It is likely to be an important time when the ability of each will be questioned, a difficult time."

How Are They Thinking?

Half Positive On LDP-JSP Union; 30 Percent Flexible On Rice Liberalization

Some four months have passed since they were first elected. Having experienced the life of a Dietmember and intraparty activities, how did the "New Wave group" dietmembers feel? The AERA editorial section surveyed the 29 members, receiving answers from 26 of them. As a "new sensibility" is the selling point of the members, over half said the JSP's old system should be overthrown. At the same time, the opinion that they would consider an "LDP-JSP grand coalition" accounted for half the members. On the other hand, although the argument opposing the liberalization of rice is strong, 30 percent are leaning toward liberalization.

Asking for an evalation regarding Chairwoman Doi, the "face of the party," over 90 percent—24 members—answered, "I continue to have a good opinion of her and support her." These are people who won election on the coattails of "Doi popularity." For now it seems their "Doi support" will not change. But there were also those

who added that, while "praising" Doi, "it is important, not to deify her, to have the habit to debate what we should debate."

The JSP's old system, in which the dependence on labor unions is great and the secretariat—called the "party bureaucrats"—de facto possesses great authority, is quickly indicated. But in response to the question, "Have you run up against the old system," all members to one degree or another answered, "Yes." As one part of the old system, the "parliamentary politics" where the JSP searches for a compromise with the LDP behind the scenes on legislation and budget proposals is raised. When asked concerning this, some 60 percent responded, "We should overthrow that kind of system."

Fundamental Position Of Sales Tax Talks Abolition

Concerning reform of the electoral system as well, over three-fourths thought that, "We should put forth an alternative proposal." They expressed dissatisfaction that the JSP executive staff did not make clear its attitude, although the LDP is advancing debate centering on the reports of its Electoral System Council. Within the JSP executive staff, there was only the line of "waiting for the LDP to self-destruct."

Concerning the sales tax, on the contrary, the 11 members who answered, "There's nothing that can be done about ruling party-opposition party discussions in the present situation," topped the nine "firmly" in favor of abolition. Already on 26 June the "Joint Composite Conference On the Tax System Problem" had started. It seems that the members had decided only in recognizing the present situation. However, it was remarkable that even those who were of the opinion that the talks were unavoidable leaned toward comments that the basic position of "abolition" should not be neglected: "We should carry out our position of abolition," "Without limits we should conduct talks close to abolition," and so on.

Concerning the proposal of the LDP's former Deputy Prime Minister Kanemaru for an "LDP-JSP grand coalition," the response, "I would consider it depending on the circumstances," slightly topped, "Opposed." According to the "consideration" faction, "Coalition with a fragmented LDP is possible, and, "It would be no problem if the LDP itself split up or collapsed." To the end, they are depicting an LDP-JSP coalition under JSP leadership.

Those opposed to rice liberalization—seemingly the central issue this year—accounted for two-thirds. There was only one case where a member offered a concrete reason to support liberalization: "To buy imported rice, then give it to developing countries as ODA [Official Development Assistance]." When we asked them for a mid-term evaluation of their "Nagatacho" lives after four months, many said they had lost their "personal time." On the other hand, many said they had gained a "new world" and "information."

Also Unease of Disconnect With Citizen Sensibilities

There were people who expressed confidence, saying that, "I can be a Dietmember even without losing the contact with the [average] citizen." But there were also some who say that, "I am growing anxious of becoming separated from the average citizen's feelings while I am terribly busy." There were also those among the New Wave group who let slip their anxiety that the will of the party organization is given priority over the thinking of individual dietmembers: "Like the army, there are scenes where the superior party officers give orders. It's like Stalin and Ceaucescu here and there."

"New Wave" Members

Name	Age	Electoral District	Background
Tadatoshi Akiba	47	Hiroshima 1	University Professor
Motohisa Ikeda	49	Kanagawa 4	NHK Reporter
Satoshi Ishii	52	Mie 2	Prefectural Dietmember
Hideko Ito	46	Hokkaido 1	Lawyer
Junsuke Iwata	52	Fukuoka 2	Local Government Workers Union Prefectural Chairman
Mayumi Utsunomiya	40	Aichi 1	Lawyer
Tomiko Okazaki	46	Miyagi 1	Tohoku Broadcast Announcer
Makoto Ogawa	57	Yamaguchi 1	Prefectural Nokyo Officer
Shigeaki Kato	43	Kagawa 2	Party Prefectural Union Organization Section Chief
Minoru Kawashima	54	Aichi 4	Prefectural Dietmember
Sadao Komatsu	59	Saitama 2	Party Prefectural Land and Residential Policy Committee Chairman
Masanori Goto	51	Kochi	Doctor
Hidenori Sasaki	55	Hokkaido 2	Lawyer
Osamu Shibutani	40	Tokyo 9	Small and Medium Business Institute Steering Committee Member
Kikuko Suzuki	54	Tokyo 1	Lawyer

"New Wave" Members (Continued)

Name	Age	Electoral District	Background
Toru Sunaga	40	Gunma 2	Party Prefectural Committee Vice Chairman
Yoshito Sengoku	44	Tokushima	Lawyer
Nobutaka Tsutsui	45	Niigata 4	Lawyer
Tamako Toguchi	52	Tokyo 4	Social Welfare Director
Yuriko Hase	43	Tokyo 11	Bar Owner, Movie Critic
Yoshio Hachiro	42	Hokkaido 3	Town Agricultural Cooperative Councilor
Ritsuo Hosokawa	46	Saitama 4	Lawyer
Harumichi Hosoya	51	Fukuoka 3	Japan Rail Employee
Ikuo Horigome	48	Nagano 2	Prefectural Vice Chairman
Shuo Matsubara	45	Nara	Lawyer
Ryu Matsumoto	39	Fukuoka 1	Party Prefectural Committee Vice Chairman
Kuniki Yamanaka	57	Iwate 1	Lawyer
Kenji Yoshioka	52	Hyogo 5	NTT Employee
Kazuko Yoshida	41	Tokyo 6	Life Cooperative Union Employee

Economic Affairs

* Facts on Real Estate Equity Financing

* Playing Trump Card

902A0241A Tokyo SHUKAN DAIYAMONDO in Japanese 9 Jun 90 pp 18-24—FOR OFFICIAL USE ONLY

[Article by Kenji Sasaki, Nihon Credit Bank]

[Text] At present, Japan is in the grips of a fever which has raised land and stock prices sky high. Cries of pain have been raised in the face of exorbitant land prices, and the search for a remedy has become an urgent necessity. One such remedy that has attracted attention and hope is the equity financing through real estate. This solution, as expected, has been called the trump card for the land and housing problem. However, is this good news for the average salary earner and "land and housing refugee"?

Trump Card for Land and Housing Problem

Problem Is Not With Land, But Lack of Real Estate

[photo caption; photo not reproduced] Development of the high-rise district of Shinjuku, Tokyo, was carried out without the use of equity financing. However, capital procured in this way was used to develop this former Japanese National Railways (JNR) property. In the future, large-scale real estate developments will probably be awash in a wave of equity financing.

Over the past five years the price of land in Tokyo has shot up 150 percent, and the aggregate market value of this land has risen three-fold on the Tokyo Stock Exchange. Stock prices skyrocketed even higher, but the tremendous rise in stock prices is not as serious a problem as the rise in land prices. The reason that the price of land alone is the problem is that land is limited. Land certainly is limited.

However, through the development methods of real estate, it can expand to an unlimited extent. It is the lack of real estate, rather than land, that is the problem.

The difference between land and real estate is whether or not any added value is generated. Land alone does not produce added value. Value is added by the activities of real estate. The problem resides in the large amounts of capital which have poured into land without added value, fueling speculation and raising land prices.

There is much debate as to whether or not the surge in land prices can be attributed to the large surplus of capital. However, it was certainly exacerbated by the accumulation of capital in the buoyant business climate of Japan. This accumulated wealth was directed into stock and land, and this brought about an explosion in land prices as a result.

The accumulation of wealth itself is not a bad thing. What is important is to make arrangements to direct investment so that this capital does not fuel speculation. This is what is most sought after at the present time, and what is behind the idea to promote the equity financing of real estate.

After the war, great pains were taken to direct limited capital into the most advantageous areas of investment. As a result, this capital was successfully diverted to manufacturing, which was linked to export competitiveness. In accordance with this policy, corporate financing was secured through bank loans to industry or by raising capital on the stock market.

However, today, the importance of capital supply to industry is on the wane. Up until recently, more capital

should have been supplied even to fairly neglected areas of investment. Investment in real estate development is only one of the many areas in society which needs capital. Thus, real estate financing is a necessity. However, real estate financing through equity financing has not yet been initiated.

The corporation is the subject of corporate financing, and capital is provided for corporate activity based on the credit-worthiness of that corporation. However, in real estate financing, the methods of providing capital focus on the real estate itself. In Japan, this kind of financing does not exist, with the exception of housing loans.

Most of all, there is no financing for commercial real estate such as buildings for lease. The object of commercial real estate financing is the real estate itself, but the real estate itself cannot become a debtor. The corporate body, whose sole reason for establishment is to undertake a commercial project with the real estate, becomes the debtor. Up to now, the process resembles corporate financing. However, the point of difference is that the body which becomes the debtor does not have to have corporate credit-worthiness. The fact that operating bodies without credit-worthiness have been able to get financing has probably spurred on real estate development.

Distinction Between Ownership and Development Has Been Advanced Slowly

Three elements are needed in order to generate real estate financing.

First there are the annuities and pension funds, life insurance policies, and investment trusts necessary for the accumulation of long-term capital. Because capital for real estate financing is fixed over a long period of time, it is precisely this kind of stable, long-term capital that is appropriate for real estate financing. Japan is currently accumulating this long-term capital at a rapid pace. Real estate financing can be supported by individuals through deposits of insurance premiums, annuities, and pension fund installments.

Secondly, financing methods must be set up. In other words, there must be various means of securing loans, methods of issuing securities, and other financial arrangements.

Finally, it goes without saying that there must be real estate to be the object of this financing. Real estate exists in every country. However, it is essential that this real estate be available to the average investor. This real estate will clearly have value added to it no matter what process is used to offer it on the market.

An example would be the whole real estate process which includes plans for building concepts, means of securing construction financing, construction of the interior of the buildings, and anticipated returns on investment. Without the disclosure of this kind of information, real estate cannot be the object of public financing.

The third element is especially lacking in our country. Almost all entrepreneurs plan to hold the property for some business undertaking, but no distinction is made between real estate development and ownership. Real estate companies develop land with capital secured through corporate financing, and in the majority of cases these companies assume ownership of the land itself. Therefore, without the need for real estate financing there can be no real estate financing.

Three Types of Securities

With real estate securities, the method of capital procurement will start with non-bank financing, and move towards banks and the securities market. In this case, non-bank financing means markets other than banks and the securities market. Capital is procured directly from capital markets.

This equity financing of real estate could include the following groupings:

(1) Equity Financing of Interests in Real Estate: Capital is procured through stock issues, much like corporate finance.

(2) Debt Financing of Real Estate Finance: Capital is procured through ordinary bond issues.

(3) A combination of Equity and Debt Financing: Capital is procured through convertible company bonds and company bonds with guaranteed rights to new stock.

Although there has been no equity financing of real estate, there has been talk of this type of financing through land ownership rights.

As for the image of these real estate securities, corporate finance products with real estate as the object of the issue would be easy to comprehend. Grouping (1) would be ownership rights to real estate. Grouping (2) would be a securities product with a claim on the real estate. Grouping (3) would be a claim which is convertible to ownership rights or a claim with a right to be able to purchase ownership rights at a fixed price.

Dividends and interest payments on the stock and company bonds would naturally follow, leading to the creation of real estate-based securities.

The principal payments on the original capital, the interest payments, and dividends on these real estate securities would be fulfilled from sales income and leasing income generated entirely from the real estate project. No other income would have to be generated for the financiers of the corporate body of the owners and obligators of the real estate property.

In Japan today it can be said that there are no securities products that fit this definition, because there are no transactions of even minor real estate offerings and

mortgage securities. There is also no obligation to disclose information. If this process of equity financing is examined, one could hope for no better than initial non-bank procurement of capital. If the groupings mentioned above were to be initiated, minor securities products in the first grouping would be the equivalent of the mortgage securities in the second grouping.

Equity Financing of Home Loans and the Remaining Property of the JNR Liquidation

Domestic Financial Markets for Real Estate Not Yet Opened

Capital Bearer/Market	Overseas Investment	Domestic Investment
General Investors/Institutional Investors	Investment capital from overseas real estate finance, and real estate securities: American mortgage securities (1), and REIT (2)	Investment capital from overseas real estate finance, and real estate securities: Home loans, and home loan credit trusts
—	—	Not yet available in Japan: Home loan securities, commercial real estate loans, commercial real estate equity financing, commercial real estate equity finance securities, real estate investment trusts
Individual Assets	Investment capital for real estate from overseas non-bank finance: American limited partnerships (3)	Investment capital for real estate from domestic non-bank finance: Small-scale real estate products

Source: Nihon Credit Bank; Notes: (1) Mortgage securities are real estate mortgage finance securities for home loans and real estate loans (2) Investment trusts focusing on real estate investments (3) Cooperative ventures which develop real estate, and share profits and losses

The chart at the top of the page lists the various real estate markets. Almost all of the securities products sold in Japan at the present time are targeted at the assets of individuals. These are located in the bottom right corner of the chart, in the non-bank real estate financial investment section. As mentioned earlier in this article, one can do no better than non-bank financing, through the process of equity financing. There are no rules or regulations, and there is no concept of investment protection. Institutional investors, of course, cannot participate.

Domestic real estate finance and real estate securities are the financial areas that can be expected to be introduced and developed in Japan in the near future. These are located in the upper right corner of the chart. The process of developing equity financing will take place in the banking and securities markets. The scale of these markets is already larger than domestic non-bank financial investments, located in the lower right corner of the chart. (Incidentally, dividend-paying securities amount to approximately Y3 trillion, while minor real estate packages total between Y500-600 billion. Home loans amount to Y85 trillion.)

The scale of the securities markets for corporate finance, including both the stock market and public bond market, stands at approximately Y1 quadrillion. It would not be surprising if the scale of the real estate financial markets matched this level. It is estimated to be worth several hundred trillion yen.

The development of domestic real estate finances and real estate securities requires action which is being taken on two fronts at the present time.

The first action would be to securitize home loans. This is being studied by the Fundamental Concerns Inquiry Board of the Japanese Securities and Exchange Council. A general liberalization in finances would develop. For example, in order to comply with Bank for International Settlements (BIS) regulations, financial institutions will have to constrict their assets and raise their self-capitalization ratios, while avoiding holding risks. In order to do so, these financial institutions are beginning to study the sale of long-term loan credit and home loan credit to investors.

The other action is one that the Japan National Railway Liquidation Group is involved in to dispose of land. The JNR Liquidation Group was charged with the task of selling off land worth Y10 trillion, which was taken over from the now-defunct Japanese National Railways Corporation, in order to service its Y27 trillion debt. The JNR Liquidation Group is the first large business venture to use incentives to sell off land.

The liquidation of JNR land was undertaken not just to sell property, but to introduce a new method of finance.

Action was taken to adopt land trusts and methods for leasing new land. However, ownership rights were not offered. The group's methods for encouraging holding did not match its liquidation incentives. This is understandable, considering this was the first time real estate financing was explored.

The venture's methods of selling off land were divided in the following way: Condominiums were constructed on land suitable for housing and sold off. On land suitable for office buildings and commercial buildings, three methods were used depending on the scale.

Land trust methods were used first for smaller parcels of land. However, the JNR Liquidation Group sold beneficiary rights to investors. Next, there were convertible long-term low-interest loans with rights to a joint interest, and convertible real estate loans. These packages included terms not only for the repayment of the loans in cash, but also provisions for an interest in the land itself. Finally, land was sold off through corporate

stock. Companies were created with real estate as collateral. These companies were floated and stock in these companies sold.

Previously, land bordering Tokyo Station, Shibuya Station, Kabata Station, Kokubunji Station, Ikebukuro Station, and Kawasaki Station in Kanagawa was sold using land trust methods. Land in Osaka's Nishi-Umeda district, Shinjuku Central Hospital, land near Ebisu Station in Tokyo, and land in Nagoya's Akahagi district were liquidated using convertible real estate loans.

Real Estate Equity Financing as Chinese Medicine

The sequity financing of real estate, especially the debate over the nature of the securities products, has been a lively topic in all quarters. In this debate, those who have a negative opinion of the equity financing of real estate point out that interest on investment would be too low to encourage investment at current land prices.

However, the stock market has become an important place for raising corporate financing, even though it is not at sufficiently low levels for dividend interest. It probably would be the same for a real estate securities market.

As stated in the opening paragraph, the rise in stock prices has not been as problematic as the rise in land prices because the stock market has been opened up. In addition to the expansion in investment opportunities, information released in reports on stocks and bonds indicates that corporations have increased in value as a result of corporate activities financed by these investment opportunities.

In contrast, there has not been an opening up of the real estate market to the average investor. Without the public disclosure of information, it is an opaque industry in which the sources of profit are unknown. Consequently, it attracts capital inclined towards speculative objectives which, in turn, invites an explosion in land prices.

In establishing a real estate securities market, it would have to attract various types of capital, not just speculative capital. In addition, information on the real estate which is the object of investment would be fully disclosed, just like in the stock market. The real estate securities market must provide opportunities for a wide range of investors, from individual investors to institutional investors.

If this were to come about, high-quality ventures would be supported by stable, high-quality capital, and capital would not flow into land holdings which do not yield added value except through a general increase in prices. With the equity financing of real estate, rises in real estate prices would yield added value for the timely investor. If prices rise within these parameters, is it really a problem?

Japan has worked long and hard in the four decades following the end of the war, and is currently experiencing feverishly high land prices as a result. Recently, there have been many expressions of sympathy for the symptoms of this fever, but somehow Japan has gotten by. However, it appears that this fever will not be easily overcome. There has been a great outcry for medicine to alleviate this fever.

For some reason, it seems that the body, which until recently was over-exerting itself, is beginning to shiver and quake. It cannot return to health through treatment. Even when the fever is lowered, another symptom soon appears. Chinese medicine is needed to restore general well-being.

The equity financing of real estate is not a medicine which will lead to an immediate reduction in land prices. However, it can lead to a general improvement in the current situation in which speculative capital flows into land. It can act like an effective Chinese medicine to direct capital into sound real estate which will increase in value. [boxed item, p 20; by Yukio Noguchi, professor at Hitotsubashi University: "Argument for Price-Indexed Loans for Land Purchases"]

Doubling the Supply of Land

I propose the adoption of price-indexed loans for land purchases to end the land problem in Japan once and for all. (See Note) Currently, even individuals who purchase small parcels of real estate in Japan can hedge their risks against rising land prices. However, the supply of land is not increasing.

Through price-indexed loans, the redemption price is increased in accordance with a rise in land prices. Thus, the financial assets hold the same value as the land. Issuance of price-indexed bonds would essentially result in a doubling of the land supply in the forms of land offered for sale and the issue of price-indexed bonds for the purchase of that land. It can be anticipated that indexation will effectively restore tranquility to land prices.

Land that would be the subject of price indexing includes under-utilized property and unused property. A particular emphasis would be placed on farm land located within urban areas. Through price indexation and exchange of this land, more landowners will offer up their land for sale, increasing the supply of land in the market. This will lead to greater availability and better use of land. In addition, purchasers of land with price-indexed bonds can hedge their risks against rising land prices and can profit from rising prices.

One focus of current government land policy is the taxation of farm land in urban areas as ordinary residential land. The tax on fixed assets of ordinary residential land, and inheritance tax on ordinary residential land are considered two separate matters. Even when fixed assets taxes are applied at ordinary residential property rates, landowners are not burdened with increases. However,

when inheritance taxes are applied at ordinary residential property rates, moderate increases are imposed upon landowners.

Taxation of Ordinary Residential Land and the Multiplier Effect

In addition to the taxation of farm land in urban areas as ordinary residential land, if inheritance taxes were reduced and exempted under price indexation, landowners would offer up land for sale and buyers would receive incentives through price-indexed loans. As a result, a multiplier effect can be anticipated.

In order to make purchases easier for ordinary white collar office workers, denominations must first be satisfactorily reduced to a small scale. Not only must denominations be small-scale, but a circulation market must also be created for buyers to be able to obtain bonds. The participation of institutional investors is necessary in order to develop a circulation market. Interest must be attached to price-indexed bonds in order to attract institutional investors.

If the circulating market is to float, a premium will obviously have to be attached to high liquidity. In order to be in line with other financial markets quotations will probably fluctuate. However, over the long term, an arbitrated relationship to land will have to be worked out.

(Note) Land price-indexed loans are bonds whose estimated redemption amount equals the issue amount multiplied by the rise in land prices over the period beginning with the issue of the bond and ending at the time of its redemption. In other words, the face value slides in response to land prices. It is assumed that the government or some other public institution would issue these bonds. Land transactions would be carried out through the issue of these price-indexed bonds. Those who hold these price-indexed bonds can redeem them at any time with the organization that issued them. [boxed item, p 22; article by Takahiro Miyao, professor at Tsukuba University: "Argument Against Land Price Indexing"]

Merit to Consumers and White-Collar Workers

The primary motive behind the equity financing of real estate is to help solve the land problem. The effect should be (1) promotion of the efficient utilization of land, (2) an increase in the supply of land, (3) a correction in the asset differential, and (4) a domestic use for capital.

The equity financing of real estate is a system for obtaining capital directly from investors in the securities market for the profitable development of real estate. Funds saved up by white-collar workers would not flow back into "corporations" as they have up until now. Instead, these funds would be invested in desirable "development projects" chosen by the white-collar workers themselves through the purchase of securities. Therefore, this so-called equity financing of real estate "development" is more than appropriate. If land in the great metropolitan cities is utilized efficiently and the supply of condominiums and office buildings is increased, the cost per condominium unit and per square foot of office floor space will decrease. Land prices from the perspective of both the consumer and the user will drop.

Capital will not go into ventures holding land when prices are rising, but instead will be directed to developers who are efficiently utilizing land. Therefore, equity financing cannot be criticized for generating larger amounts of capital for the real estate market, and discouraging rises in land prices.

Through the circulation of real estate securities, the paying assets would compare favorably with land itself. When this begins to occur, landholders will put land up for sale which will cause a movement towards the purchase of real estate securities. In order to promote this movement, taxes on land transaction profits should be exempted in the case of securities transfers.

It cannot yet be said that the equity financing of real estate holds any merit for the savings of white-collar workers who own no land. If they purchase securities linked to the value of general real estate, housing funds can be saved up without any loss of value to their savings.

Although Japanese money is to be directed towards desired domestic development, there has been a lessening of criticism for capital flowing overseas on real estate "shopping sprees." However, since foreign investors can also purchase real estate through equity financing, perhaps they will participate in the Japanese real estate market for the first time.

Equity Financing of Land and the Equity Financing of Real Estate

Japan currently is in the cornered position of being unable to bring about the necessary system reforms in order to make the securitization of real estate a reality.

Equity financing is urgently needed at home in order to liquidate land owned by the now-defunct Japanese National Railways Corporation. International pressure on Japan, such as in financial talks with the United States, has led to the recognition that new securities are necessary for liberalization.

As a concrete step in this direction, large home loan claims currently denominated in Y100 million should be divided into small parcels and circulated as securities. These low denomination real estate securities should be converted into small allotments under a negotiable partnership system. In addition, action should be undertaken to permit real estate investment trusts. These are investment trusts for investing capital in real estate.

It is important not to confuse the equity financing of real estate with similar proposals. The equity financing of

"land" not linked to development is fundamentally different. This type of financing, in proposals such as the so-called "land price-indexed bonds," calls for the government to issue bonds instead of having landowners such as farmers sell land.

However, problems occur if the government or the administration participates directly. Since neither the government nor the administration can respond effectively to the appraised value of land on the market, which sets the current direction of land prices, they should not devise an official land price index. Such an arbitrary bond would not be convertible to land.

The Housing Bureau of the Ministry of Construction is studying the idea of a "Step-Homeowner System" and "Housing Warrant Bonds" in which salaried workers can buy the right to own a home. (See note)

However, unlike equity financing, these rights are not negotiable on any market, and once these rights are bought, they will be very difficult to sell. Rather than undertake this kind of sweeping yet inadequate half-measure, the various government ministries and agencies should take up the urgent task of cooperating on a comprehensive solution, and introduce a system of real estate equity financing like those in a number of foreign countries.

(Note) Under the "Housing Warrant Bond" concept currently being studied at the Ministry of Construction's Housing Bureau, housing developers would issue bonds containing a contractual right (warrant) to purchase housing after 7 to 10 years. The warrant part would be sold to home buyers, and the bond part to institutional investors at a discounted rate.

If the developer obtains interest-free capital through the sale of warrants, it can also get capital through low-interest bank loans. Because the purchaser of a warrant can buy housing at a price set in advance of the term of the bond, it is not necessary to buy housing too quickly out of fear of skyrocketing land prices. The bond part can be bought and sold freely. As for the warrant part, "a negotiable proposal, a non-negotiable proposal, and a hybrid proposal are currently under study," (Housing Bureau).

* Increased Real Estate Parceling

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[Article by Mikio Sato, staff writer]

[Text] **Lulled Into a Trap**

There has been an explosion of talk in which everything has been said except "If we do not undertake the apportionment of real estate into small shares, there will be no more real estate developers." However, the actual situation is a mixture of good and bad. As of now, there is no legal framework nor any industry bylaws. At the present time, investors are being lulled into a trap. "Of course, the supply of land and real estate will increase. Land prices will essentially stabilize with the equity financing of real estate. This is a social mission we must undertake." There has been a lot of talk from another dimension.

Preparing for the Age of Real Estate Equity Financing

The first time that real estate was apportioned into small shares was in a sale by Mitsui Real Estate sometime around 1987. In the fall of 1987, Mitsui Real Estate took a building in Fujisancho, located in Tokyo's Chiyoda Ward, and divided office space on floors 6-7 into small lots. (The one underground floor on the site measures 599.95 square meters, while the seven floors above ground total 4,061.38 square meters.) Forty-seven of these units were sold at an average price of Y100 million per unit. (However, 35 of these units were sold preferentially to members of an investor's circle organized by Mitsui Real Estate.)

With this kind of encouragement, other major players and also-rans soon began to get involved in this new kind of project. However, the subjects of small apportionment were not confined to offices in metropolitan areas. Allotment spread to hotels, condominiums, and shopping centers both at home and abroad. This has given many the impression that a widespread movement is on the rise, and it wasn't long in this climate before there was talk in the industry of implementing a "securitization of real estate" in Japan. In preparing for the arrival of real estate securitization, past results and techniques concerning small allotments must be gathered up and examined in advance.

The existing small allotment systems in real estate can be divided into three groupings:

(1) Small Allotments as Trusts

A trust bank and a real estate company cooperate in dividing real estate into small units combined with trusts. This type is mainly used for such things as office buildings in metropolitan areas. Many large real estate firms are able to cooperate with trust banks. There is no shortage of cases in which small and mid-sized developers could not work in concert with a trust bank very easily.

Trust banks thoroughly scrutinize the credit rating of the real estate developer and the value of the real estate that is the object of allotment. Moreover, the objects of trusts are limited to domestic properties. Plans for the parcelling of real estate vary greatly. There are cases in which the real estate firm purchases the land and devises the development plans, cases in which the trust bank approaches the real estate firm with a proposition, and cases in which both parties cooperate in devising a plan.

As for the type of trust, after the real estate company sells joint ownership rights (over the parcelled lots) to investors, the investors entrust the joint ownership rights to

the trust bank after 10 years have elapsed. (Ownership rights are also transferred to the trust bank.) Within that time they receive dividends. When the trust period expires, the real estate company sells the land and buildings, and the investors divide up the profits minus expenses.

In setting the period of the trust at 10 years, the real estate holdings are sold after a decade under the current land taxation system, a long-term transferral is made, and taxes are reduced. In most cases with these trusts, the investment amount is set at Y100 million per share.

(2) Non-Trust Allotment of Small Shares

The real estate company determines the size of the allotments, and after investors purchase joint ownership rights, the real estate company leases the property to a third party. The real estate company is also in charge of maintenance and management of the property. Dividends are paid to the investors, and when the freely chosen time for sale of the property comes up, the investors are paid dividends on capital gains. Small and mid-sized real estate developers most often follow this pattern of allotment, and the objects of investment are a rich variety of office buildings, hotels, and condominiums.

(3) Non-Trust Optional Partnerships for Small Allotments

The characteristics of this system do not vary much from the Non-Trust Allotment of Small Parcels described in section (2) above. However, a special characteristic is that the investors (holders of joint ownership rights) form optional partnerships and determine the management and time of sale for the property to reflect their own interests. As of yet, there have not been very many small allotments which have employed this system.

Investment Yields or Capital Gains?

From the point of view of investors, there are obvious merits and demerits to the small allotment of real estate.

First, in the case of trusts, one cannot hand over or resell the rights to joint ownership to a third party during the period of the trust. The annual investment yield from dividends (income gain) is low. In the case of office buildings in the center of Tokyo, many investment yields do not even approach the 2-percent level on an annual basis. One cannot place emphasis on capital gains from the sale of the property at the end of the trust period.

Secondly, in nontrust allotments (including optional partnership), the income gain is relatively high compared to trust allotments. Yields on investment vary depending on the developer. Even when the developer is the same, there is variance depending on what property is being developed. However, there are cases of yields on investment hovering around an annual rate of 6 percent at point of sale. Furthermore, there are many cases of joint ownership rights being freely transferred or resold. Capital gains vary somewhat depending on the developer.

There are systems in which the investment period (income gain dividend period) is three to five years with capital gains dividends after the sale. (This kind of small allotment of real estate is common overseas.) Under this kind of system, the sales data is not especially fixed (as is common in the domestic allotment of small shares of real estate). There are also systems in which the money for the lots paid at the start of 20 years and the entrance security deposit are returned without interest.

A number of supplementary explanations are needed on the 20-year repayment system. Legions of developers have adopted this system for domestic business hotels and resort hotels. A good example is a hotel in Kyoto in which the price of shares was Y5.09 million and the security deposit fee was Y5 million. Fixed dividends are paid out over a 20-year period, and after 20 years the initial cost of the shares and the security deposit fee are returned without interest. Under this system, the investors place importance on the income gained over the 20-year period.

Up to What Point Can There Be Both Earnings and Liquidity?

In addition, what has to be noted is that in many cases income gain dividends are anticipated but not guaranteed. This is true of both trust allotments and nontrust allotments. Even though dividends are assured in promotions, there are many cases in which the period of guaranteed dividends is 3 years, and dividends to investors after 4 years amount to 80 percent of the net profit on rents or room-and-board charges.

In the case of the allotment of hotel real estate in small shares, operating rates are often overstated. When operating costs are subtracted from room-and-board fees (not including charges for meals and entertainment) to generate net profits, the possibility must be considered that dividend rates may drop after 4 years.

Next, in the case of developers who operate on the system of repaying the original investment to investors after one or two decades without interest, there is some uneasiness concerning the ability of small, weak developers to carry out reliable operations up until the repayment term matures—not to mention worrying about the possibility of bankruptcy in the interim period. Even if the company continues to operate, business conditions could deteriorate to the point where the company might not be able to make repayment.

In order to reduce these kinds of risks, an appropriate percentage of the overall repayment amount has to be deposited, but regulations concerning the allotment of real estate into small shares are insufficient at present and do not require any such deposits.

Even if the developer declares bankruptcy, because the joint ownership rights are registered in the names of the investors, many believe that their original investment can be recovered through the sale of these rights. But is a 10-20 percent share in one room of a less-than high-class condominium or hotel really a sought-after commodity? From the standpoint of liquidity, one cannot be optimistic about joint ownership rights.

Questions on Grading Investment Properties

Finally, just who can expect to receive capital gains from the sale of real estate that has been apportioned into small shares of real estate? One cannot take an optimistic view even when selling the property. First, there is the obvious case in which the grade of a building which has been apportioned into small shares cannot be considered very good. Taking the example of office buildings which were apportioned into small shares by large real estate companies—such as large, new ("intelligent") buildings in Tokyo's first-rate Nishi-Shinjuku, Otemachi and Marunouchi districts—the possibility of recovering these small shares is next to zero. It is difficult to imagine a real estate company holding a large, new building on prime land as an asset and converting it into investments at the present time.

Secondly, buildings varying from high-grade to low-grade have been apportioned into small shares by developers—even buildings that are less-than second rate. The following are some recent examples:

Marukoh recently sold a building in Sendagaya 3-chome, which is in Tokyo's Shibuya district. The site measured 81.91 square meters (about 24.8 *tsubo*), and was located in a commercial zone. The basement floor and four above-ground floors of the extremely small building totaled 263.76 square meters (about 79.9 *tsubo*), and the construction area measured 64.21 square meters (19.5 *tsubo*). For this building Marukoh raised capital by selling 76 shares worth Y20 million each, totaling Y1.52 billion.

Tokyu Real Estate purchased a building in Kita-Kudan 1-chome in Tokyo's centrally located Chiyoda district. The site measured 193.07 square meters (about 58.5 *tsubo*), and was located in a commercial zone. The small building had 10 stories above ground, totaling 1,351.28 square meters (or approximately 409.5 *tsubo*). The construction area was 167.62 square meters (or about 50.8 *tsubo*). The property was allotted in shares of floor space totaling 415.15 square meters (approx. 125.8 *tsubo* over three-floor sections). Tokyu Real Estate sold 15 shares worth Y100 million each. Both the Marukoh and Tokyu Real Estate office buildings could not even be called second-rate. Who can expect to reap any capital gains in the future? One cannot look forward to their sale very optimistically.

Table 3. Examples of the Apportionment of Real Estate Into Small Shares

Name of Developer: Name of Real Estate Package	Property Which Has Been Apportioned in Small Shares	Price of a Single Share
Mitsui Real Estate: Real Estate Investment Trust System	Mainly office buildings in the center of Tokyo. Trust banks usually participate	Y100 million
Tokyu Real Estate: Precede	Mainly office buildings in the center of metropolitan areas. Trust banks usually participate	Y100 million
Hasegawa Construction Corporation: RIS	High-rent condominiums in Tokyo, office buildings and condominiums in America, etc.	Y100 million
Nomura Real Estate: Super-Set	Mainly office buildings in the center of metropolitan areas. Trust banks usually participate	Y100 million
Toyo Real Estate: Tips-1	Mainly American office buildings	$680,000
Sky Court: Begin	Domestic and American office buildings, condominiums, and hotels	From Y10 million
Ribex: Owner System	Primarily domestic hotels and condominiums in large metropolitan areas	Depends on the property, but a good example is Y12 million
Takano Binnan Shoten	Primarily domestic hotels	Depends on the property, but a good example is Y5 million
Marukoh: Resystem	Domestic office buildings, condominiums, and hotels, as well as overseas hotels, condominiums, and shopping centers	Depends on the property, but a good example is Y20 million
Granden*: Inter Co-op System	Mainly American office buildings	$100,000
Perfect Realty*	Mainly high-rent American condominiums	Depends on the property, but a good example is Y720,000
Environmental Development Research: Best Partner System	Mainly hotels in Hong Kong	Depends on the property, but prices generally range from Y10-20 million

(Note) An asterisk denotes foreign companies. The circumstances pertaining to the price per share and properties may vary.

Difficulty of Assessing Overseas Property

The apportionment of foreign real estate into small shares is difficult. There are many cases in which very old buildings are purchased and sold to Japanese investors.

A good example is an office building in Los Angeles which was purchased by Toyo Real Estate. The building can be described as large. (The site measured 1,856.49 square meters, with 2 underground floors and 12 stories above ground totaling 9,255.92 square meters.) The building was over 25 years old. Fifty shares in this and another building were sold for $680,000 per share. Resort condominiums on the American West Coast and Hawaii built decades ago are laid in stock, and sold in apportioned shares to domestic investors in Japan.

In a Japan that has sky-high land prices and that will experience fluctuations in future sales, the size of capital gains depends on the trend in land prices. Under the present situation, in which land price controls are seen to be the object of urgent government action, many doubts have been raised about the low levels of real estate apportioned in small shares. On this point, one cannot overstate the fact that there are very few real estate companies which are fully confident.

In the case of foreign real estate, one has to realize that it is difficult to assess.

Japanese real estate companies are purchasing property and apportioning it into small shares too hastily, without fully understanding regulations and industry bylaws. In the end, the largest real estate companies should meet and create a research group to study issues such as the announcement and sale of small shares of real estate, and the protection of consumers.

*Concern Expressed Over FY91 Budget Compilation

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[25 Jul 90 p 8]

[Article by Tomomi Shigetani: "Government Agencies Are Gung Ho Over Expansion of Public Investment; Finance Ministry Somewhat Perplexed"]

[Text] The ceiling for the FY91 budget will be decided by the Diet on 27 July and full-scale drafting will begin. In addition to outside pressure at the Japan-U.S. Structural Impediments Initiative [SII] talks that compelled Japan to promise expanded public investment, internal pressure is also stronger than in previous years. A "chorus" for increased annual spending has already started within the LDP [Liberal Democratic Party], contending that a breakaway was made from dependence on deficit national bond sales in the FY90 budget. On the other hand, the Finance Ministry, which hopes to steer financial reconstruction on track, is putting up strong resistance. The folllowing is an analysis of the FY91 budget-drafting that faces a major crossroads between higher annual spending and financial reconstruction.

"The drafting of the FY91 budget offers the first and final chance for an early construction of the Shinkansen expansion project. We will address it (the acquisition of the budget) with wisdom, effort and courage."

Immediately prior to the chief secretaries conference, where an offensive-defensive battle erupted between the Finance Ministry and the other ministries, Transportation Minister Ono made the foregoing statement with somewhat flushed cheeks, indicating his eagerness to win budget approval for construction of the Shinkansen expansion project.

Based on Japan's promise, exacted at the Japan-U.S. SII talks, to drastically boost public investment, the Finance Ministry will appropriate Y200 billion in public investment spending under a separate framework of living-standard-related priorities in next year's budget. Public investment spending, which showed a zero growth rate compared to the previous fiscal year, will actually rise for the first time in a decade. This fact has caught the attention of the transportation minister.

It was once said that the Shinkansen expansion project "will become one of the most foolish assessments in the Showa Era (if it is budgeted)," and it has been treated as a complete nuisance by the Finance Ministry. In the FY89 and FY90 budgets, due to political pressures, funding was barely approved for construction of the Hokuriku Shinkansen Line between Takasaki and Karuizawa and six architecturally difficult zones on the Tohoku, Hokuriku and Kyushu lines. Taking advantage of the expansion in public investment, the parties concerned are preparing to win approval from the Finance Ministry for construction on all the lines.

The LDP discussed the handling of the Shinkansen expansion project on 24 July at a meeting of the chairman and vice chairman of the party's political research council. The majority opinion at the meeting was that "it should be appropriated under a framework that is separate from the budget ceiling."

The Transportation Ministry is working on a special account concept regarding the Shinkansen project, under which it will sell rolling stock and facilities of the Tokaido, Tohoku and Joetsu lines to JR Tokai and JR Higashi-Nihon, and apply accruing profits from the operational use of Y1 trillion of the sales receipts as construction funds. However, because of the hike in public investment, the LDP transportation "zoku" [policy group] dietmembers have decided to change their tactics for the time being, and to go all-out for the realization of construction under public investment spending.

The other ministries and agencies are equally enthusiastic about the increase in public investment.

The Construction Ministry is ready to demand a share and a role in the living-standard-related priorities, stating that "the Construction Ministry-related appropriation of Y5 trillion is committed totally to these projects including sewer systems, roads and parks." Whereas the Finance Ministry contends that "parks in a favorable natural environment cannot be included in these quality of life priorities," the Construction Ministry insists that "there is no difference simply because they are parks." The Ministry of Agriculture, Forestry, and Fisheries which is in charge of such public works as farm roads, declares that "(projects related to the Agriculture Ministry) are all related to living standards."

Regarding the aggressive postures taken by the various ministries in close union with their respective LDP "zoku" dietmembers, Administrative Vice Minister Okai is somewhat perplexed when he says: "Whether it stems from strong expectations, their demands are more persistent than last year." The basic stance of the Finance Ministry is that, "although we are now freed from deficit national bonds, the makeup of the present financial circumstances has not improved at all. As long as there will be a bond balance of Y164 trillion at the end of this year, it still cannot be claimed that financial reconstruction has been achieved." The hot summer of budgeting is about to enter its main phase.

[26 Jul 90 p 10]

[Article by Yoshimi Kura: "Stagnant Tax Revenues and Bond Redemption Are Major Burdens"]

[Text] Chairman Eiji Suzuki of the financial system council pointed out at its general meeting on 25 July as follows: "There is an atmosphere of high optimism in some quarters, given the freedom from dependence on deficit national bond issues, but the reality is quite different."

"We must not have naive expectations regarding the financial circumstances."

"Although it may be regarded as being stupid, we must persevere with logical arguments." Finance Ministry executives including Minister Hashimoto and Vice Minister Okai refer to the "severe financial circumstances" on every occasion.

It clearly indicates restraint against rising pressures concerning annual spending. It is true that it stems from the almost physiological rejection reflex that is unique among Finance Ministry bureaucrats. However, it does not appear to be solely for that reason.

The deficit national bond balance at the end of this fiscal year will be about Y164 trillion, and costs for payment of bond interest will make up 21.6 percent of the general account. "(Compared with other advanced nations) it is the world's highest national bond cost," (Administrative Vice Minister Okai). Reversion to issuance of deficit bonds is not permissable; nor can the carryover at a fixed rate (1.6 percent of the issue balance) into the bond consolidation fund special account, which was reopened during the current year for the purpose of bond redemption, be halted.

Furthermore, regarding public projects that use sales profits from NTT [Nippon Telegraph and Telephone Corporation] stocks, the circumstances are beginning to dictate defrayment with general financial funds from the next fiscal year. The stock price, which once reached Y3 million, is now barely Y1 million. Although the issue of 1.95 million shares is projected in this year's budget, sales will never reach that amount under present circumstances. Continuing from last (fiscal) year's abandonment of sales, it is a problem that worries Finance Ministry officials who "do not know what to do" this year.

Amid this situation, the greatest shock was received from the tax receipts in the FY89 general account. During the past three years, the natural revenue increases on a scale surpassing the post-supplemental budget amount were as follows: Y2.4 trillion in FY86, Y3.7 trillion in FY87 and Y2.7 trillion in FY88. Also, the tax revenue elastic value (growth ratio of tax revenues compared to the nominal growth rate) moved at the high ratios of 2.15, 3.20 and 2.22 respectively. In other words, the revenues grew at two to three times the economic growth rate. Naturally, the Finance Ministry had at one time projected a natural revenue increase of about Y1.5 trillion during FY89.

However, the results showed less than half of that amount at Y731.7 billion. The tax revenue elastic value also fell to 1.54. This year the tax receipt environment, which was described as "three highs and two lows," changed drastically and showed a triple decline in stocks, bonds and the yen. In particular, corporate tax revenues (36 percent of the post-supplemental budget amount) failed to reach Y582.2 billion.

Consequently, the Finance Ministry was forced to be cautious regarding the FY91 tax revenue estimate. At this point, it is expected to be about Y60 trillion as indicated in the "mid-term financial outlook," or a hike of about Y1.9 trillion from the budget at the beginning of the previous fiscal year. The increased amount is expected to include roughly Y1 trillion in regional grant taxes. The complaint by the budget examiners that "we are unable to draft the budget" cannot necessarily be regarded as an exaggeration.

[27 Jul 90 p 8]

[Article by Tomomi Shigetani: "Separate Framework for Living-Related Spending; Also A Beneficial Aspect of U.S. Pressures"]

[Text] "Do something about express highways that do not move because of traffic jams." The Finance Ministry resists pressures to up annual expenditures. Even within the ministry itself, there are voices of exasperation at the

shortage of social capital. An abstract example pointed out is a happening that took place during the Golden Week [26 April to 5 May] of this year.

In response to U.S. demands, it was suddenly decided to send data from Japan. It consisted of important documents that could not be faxed. An official in charge carried the documents and departed for Narita Airport by car. However, he got caught in a traffic jam. Although he somehow managed to reach the airport, there were long lines of travelers at the terminal bound for overseas, and he was unable to make his scheduled flight. He reportedly arrived in the United States much later than was promised.

"The Finance Ministry is an assessment agency. Because it is the budget examiner's job to trim the budget, he sometimes uses strong language. Actually, we sometimes believe there should be three-lane highways. However, the requesting parties refrain and bring requests for only two lanes. Frankly, we were disappointed at this." These were the words of a former budget examiner who was in charge of public project budgeting.

Financial reconstruction is the "flag" carried by the Finance Ministry. It cannot lower it. Nonetheless, is there not some measure by which it can serve the people's interest within that framework? The Finance Ministry has been grappling with this proposition with the purpose of achieving the immediate financial reconstruction goal of decreasing the issue of deficit national bonds to zero in the FY90 budget.

An example is the public works project. The shares of budget distribution has been fixed ever since the introduction of the "zero ceiling" in the FY82 budget. The Finance Ministry has always hoped to open some kind of "daylight." The reality is that it has been unable to do so because of strong resistance by LDP "zoku" dietmembers. At this point, the United States took up the matter of social capital at the Japan-U.S. SII talks. Ministry-related sources admit that, "with foreign pressure added to internal pressure, there is hope for rescue in terms of drafting the budget."

Despite being freed from dependence on deficit national bond sales, priority will be given to measures that will enrich the life of the people amid the continuing severe financial circumstances. As far as the target projects are concerned, no information will be provided to the requesting ministries, but "the Finance Ministry will study them and render its decisions" (the budget bureau), and thereby adjust the budget. This is the background and strategy of the Finance Ministry that resulted in establishing a separate framework of Y200 billion for life-related public projects.

However, the LDP "zoku" dietmembers and the requesting ministries proved to be tougher. Various kinds of demands were submitted. Apart from the Shinkansen project, the commerce and industry "zoku" dietmembers loudly demanded that "measures concerning small-and-medium businesses also be included in a separate framework relative to the Japan- U.S. SII talks."

Also, even if the framework of living-related priorities is narrowed down, there is apprehension that there will not be the desired effect regarding roads and public housing due to skyrocketing land prices. Moreover, there is a half-threatening statement by U.S. Government sources that "we will observe the progress of public investment in the next fiscal budget." There is no limit to pressures for annual spending.

To begin with, there is an aspect of zero ceiling budgeting that precludes political pressure. The apprehension that, once an inroad occurs the small hole becomes larger and larger before one realizes it, will probably persist beyond next year. In the future, if projects not directly related to living standard improvement are included, one after another, in the framework of these priorities that have been excepted, and if the framework is gradually expanded, there will be concern about not only financial reconstruction burdened with a national bond balance of Y164 trillion at the end of FY90, but also about inflation. "A return to deficit financing can result if there is a single misstep," (a Finance Ministry official), and the drafting of the budget is seen as truly a tightrope-walking act.

* Confronting Labor Shortage Seen as Priority

* EPA Survey

902A0232A Tokyo NIHON KEIZAI SHIMBUN in Japanese 5 Jul 90 p 3—FOR OFFICIAL USE ONLY

On 4 July, the Economic Planning Agency [EPA] published a survey research report concerning the labor shortage. Within the continued expansion of business, the supply and demand of labor is tight and 70 percent of the firms are worried about a shortage of workers. The shortage of regular employees is, in particular, severe. Firms are trying to deal with it by expanding mid-career employment, attracting people with increases in annual holidays and the number of vacation days, and by increasing labor-saving investments. However, the report points out that an easing of labor supply and demand cannot be expected in the future and that readjustment of easy working conditions for the elderly and women is indispensable.

The report was compiled based on a questionnaire conducted with 1,500 companies nationwide from November to December of last year.

According to the report, 27 percent of the firms responded that there was a "shortage" of labor and 44 percent that there was "some shortage," for a total of 71 percent believing that there was a shortage. Among them, the total reached 69 percent combining "shortage" and "some shortage" for regular employees centering on technicians. On the other hand, it was 31 percent for

both regarding the shortage of part-time workers. In the dispersion by industry, restaurants stood out at 60 percent.

As worker shortage countermeasures for the future, "expansion of mid-career employment" was at the top with 42 percent. Next followed "increase in annual holidays and number of vacation days" (41 percent), laborsaving investments (29 percent), and "reduction of prescribed work time during the week" (29 percent). However, "reemployment of old retirees" (17 percent) and "reemployment of female retirees" (8 percent) remained at low percentages.

Thirty-four percent of the firms said that the labor shortage was tied to increases in personnel expenses. Upon investigating these companies about passing on the price, 13 percent responded that it was "possible and will be implemented as necessary," 8 percent that it was "possible, but is being absorbed by upgrading productivity," and 61 percent that it was "difficult without obtaining consensus of customers." However, 28 percent of the service industries such as leasing and tourism replied that it was "being implemented."

Concerning future labor supply and demand, the report forecasts that "For the time being, the tightened situation of close to total employment will continue. It judged that a supply shortage will be the basic tone over the long term because of the drop in the percentage increase of the population. To maintain sustained growth of the economy without inflation, it appealed for an improvement in labor conditions in small and medium enterprises and the "3K" industries (hazardous [kiken], dirty [kegare], and hard work [kitsui]) in addition to the use of women and the elderly.

* Employing Women, Elderly

902A0232B Tokyo NIHON KEIZAI SHIMBUN in Japanese 5 Jul 90 p 3—FOR OFFICIAL USE ONLY

[Text] **Women Active at Construction Sites; Use of Elderly Also Active**

The worker shortage is growing more and more serious along with the prolonged business expansion, but industrial circles are aggressively proceeding with the use of women and the elderly as a trump card to solve the worker shortage.

The number of women now at construction sites stands out. Various construction subcontractors such as Sato Engineering and Yamazaki Construction are aggressively employing women and women are now working as ferro-concrete workers and dump truck and bulldozer drivers. In the plastering trade, young female teams have been employed.

Construction sites, which commonly are said to be "3K" (hazardous [kiken], dirty [kegare], and hard work [kitsui]), chronically have worker shortages. The use of female labor is a strategy that kills two birds with one stone by "solving the worker shortage and creating appealing jobs that attract men," (Takenaka Engineering).

The employment of women is proceeding not just in the construction industry, but also in the computer and software industries where there is a chronic concern about a shortage of technicians. There have been remarkable inroads of women into SE (systems engineering) having to do with systems design using computers and negotiating with users. At IBM Japan, "one-fourth of the employees who are university graduates and doing professional work are women," (Kakutaro Kitashiro, managing director). Women are active in various occupations including in business and engineering.

A second look also is being taken at the elderly as an important personnel supply source. A translation company established last year by IBM Japan is a joint investment company of IBM and old boy employees who have retired from the company. Sumitomo Bank also established a placement company last year for reemployment of old boys. There is an increasing number of firms such as Sumitomo Electric Industries and Matsushita Electrical Industrial Co. who have established not a company organization, but a system for former employees to work in their former positions even after retirement.

With the lifespan of the Japanese people increasing year by year, competent personnel can be ensured by skillfully using old boy employees who "can still work."

Ensuring personnel is the top priority issue for major companies also. How will they handle women and the elderly? This problem is a major factor governing the growth of the company and it must not be something on which business will drag its feet or expansion will be limited.

MONTSAME Reviews Articles for 31 Aug

OW0109134790 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1122 GMT 1 Sep 90—FOR OFFICIAL USE ONLY

[Text] Ulaanbaatar, August 31 (OANA-MONTSAME)—The ruling party paper "UNEN" writes that the crews of the Mongolian Civil Aviation Company "Miat" flew for the first time directly to the Japanese town of Nigata on board of the "Tu-154m" plane. The crews were headed by experienced pilot D. Behbat, who carried out the 13,000 hours' flights. The paper carries the photos of the crew commander and members.

Letters and suggestions continue to come to the editorial board of the paper as far as the election of the president at the forthcoming first assembly of the MPR [Mongolian People's Republic] People's Great Hural is concerned. The readers emphasize the important significance of establishing the post of the state head at the period of renovation underway in the country. Many readers express their confidence that the current chairman of the MPR People's Great Hural Punsalmaagiyn Ochirbat is the perfect person to be the president of the country. A number of readers suggest to include S. Dzorig, the leader of the Mongolian Democratic Association "MDA", into the composition of the Presidential Council.

The paper reports on the commissioning of a new plant producing powdered milk; it is fitted out with up-to-date equipment delivered by the Danish firm "Angidro." The plant is capable of processing every day 50-60 thousand litres of milk thus producing powdered milk and protein.

"UNEN" continues to cover the course of hay-making and preparations for the harvest. The local correspondents criticize the unsatisfied preparations for wintering of the Darhan Power Station and insufficient attention to the preservation of potatoes and vegetables in Omnogovi Province.

The paper carries an article by C. Erdene, Candidate Veterinary Science, and L. Altanhuyag, researcher of the Institute of Animal Husbandry, dealing with the problems of introducing the achievements of biotechnology into production. They write that the use of modern scientific and technological achievements in biotechnology is of great importance for improving the stock breeds and increasing the number of highly-productive stock.

Under the heading "Traditions and Renovation", the paper publishes an article by G. Norovsambuu, candidate Historical Science, who writes about the traditional use of the state seal from the time of the founder of the United Mongolian State Ghingis Khan. The author goes on to note that the Ghingis Khan's jasper seal had been passed on from one generation to another until 1930. By tradition the state seal of the Mongols had a four-cornered shape symbolizing the steadiness and prosperity, the author notes and suggests to restore this tradition. "UNEN" reports on the meeting of the MPRP Central Auditing Commission, held the other day to discuss the party work and its further tasks. The meeting underscored the imperative need of raising the efficiency of control over the realization of the provisions of the party rule and decisions of the MPRP Extraordinary Congress (April 1990).

Under the heading "Who Removed Y. Tsedenbal" "UNEN" publishes an article by journalist D. Dojoodorj about the circumstances of resignation of the former Mongolian leader Y. Tsedenbal from high party and state posts. The journalist speaks about his conversations with those people who worked close with Y. Tsedenbal and about the conclusion of the physicians that Y. Tsedenbal suffered from scleorosis. This article is to be continued in the next issue.

In its international section "UNEN" reports on an exchange of views between the Soviet President M. S. Gorbachev with B. Yeltsin, chairman of the Supreme Soviet of the RSFSR [Russian Soviet Federated Socialist Republic], on the questions of internal situation in the country and preparation of the transition to the market economy as well as on the joint participation of the GDR Prime Minister L. Mayzer and Chancellor of the FRG H. Kohl in the meeting in Halle, and also on the situation in the Persian Gulf region.

The literary paper "UTGA ZOHIOL, URLAG" devotes its signed article to improving the work of museums, founding and reconstructing museums thus using the experience of other countries.

The paper highly assesses the illustration of the collection of poems entitled "The Laws of Blue Sky" published by the publishing house named after B. Sharav on the occasion of the 750th anniversary of the "Secret History of the Mongols." It also publishes the essay about one of founders of underground revolutionary circles, the first prime minister and foreign minister of the provisional people's government D. Bodoo, who was subjected to repression in 1922. B. Bodoo was engaged, at the same time in literary creative work.

The army paper "ULAAN OD" deals with the problems of renewing political and educational work in the people's Army. The readers underscore that it is necessary to stop the activities of this or that political party in the Army.

MONTSAME Reviews Articles for 4 Sep

OW0509055890 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 0947 GMT 4 Sep 90—FOR OFFICIAL USE ONLY

[Text] Ulaanbaatar, September 3. (OANA-MONTSAME)—The ruling party paper "UNEN" published the resolution of the Fourth Plenum of the MPRP [Mongolian People's Revolutionary Party] Central Committee, held on August 31, on the outcomes of the general elections and the tasks of party organizations.

The resolution notes that the recent elections to people's hurals of all stages, which were held for the first ever time in a free and democratic atmosphere, have become an important step in realizing the MPRP programme building the state based on the rule of law and that the MPRP constantly took up during the elections the position of mutual understanding with other political parties and the just competition with them through political methods for the good of the people and national unity. The document points out that the recent general elections confirmed the high prestige of the MPRP in the political life of the country, thus allowing it to gain more than 60 percent of votes and take up 31 seats in the State Baga (Little) Hural. It says that at present intensive deepening of the party renewal is the vitally important task of the MPRP.

The "UNEN" carries the appeal of the MPRP Central Committee to its members and the Mongolian people. It notes that, in the first seven months of this year, labour productivity reduced in comparison with the corresponding period of 1989, thus leading to the loss of the possibility of production out and services worth more than 430 million tugrik. The MPRP Central Committee appealed its members and all working people to do away with mismanagement, stop violation of production discipline and order, intensify the efforts for successful fulfilment of production tasks, and display patriotic consciousness and creative initiative for the good of society.

The paper widely covers the first assembly of the MPR [Mongolian People's Republic] People's Great Hural of the 12th convocation, which started its work today in the Mongolian capital. The readers address the deputies with their suggestions as far as the elections of the president, vice president are concerned and with the deputies to justify the trust of the people.

Under the heading "Market Relations" the paper carries a signed article on the problems of raising the efficiency of returns of foreign trade. The article notes that the needs in import grow depending on real conditions of the country's development. The imports continue to outstrip the growth of export resources. In this connection it is imperative to pay greater attention to enhancing the quality and competitiveness of home products and the role of expert examination in export as well in import of goods and the efficiency of foreign trade.

T. Kyzyle, one of the veteran soldiers, who now lives in Bayan-Olgiy Province, devotes his article to the 45th anniversary of the victory of Soviet-Mongol troops in the 1945 Liberation War against Japanese Militarists.

The paper carries also an interview by Dang Gia Tat, ambassador extraordinary and plenipotentiary of the SRV to the MPR, on the occasion of the 45th anniversary of the National Day of the SRV.

In its international section, the paper reports on the speech by USSR President M.S. Gorbachev at the joint meeting of the Council of the USSR Union and Presidential Council, assignment of the Great People's Assembly of Bulgaria to A. Lukanov to form a new government, on the ceremony of signing the treaty of accepting the GDR to the composition of the FRG, and the continued crisis in the Persian Gulf region.

The youth paper "MONGOLYN ZALUUCHUUD" focuses great attention to the harvesting campaign. It notes the need of carrying out the harvesting in a shortest possible period.

It comments on the outcomes of the recently-held Second meeting of the MRYU [Mongolian Revolutionary Youth Union] Executive Committee, which discussed the outcomes of the participation of MRYU organizations in the recent elections to people's hurals of all stages. The MRYU Executive Committee addressed the deputies with an appeal to actively participate in elaboration of the state policy on youth and submit their own proposals concerning the draft laws on children and youth and on the public organizations for discussion to the MPR People's Great Hural and the State Baga (Little) Hural.

The readers widely discuss the issue concerning the election of the President.

The paper devotes another article to improving the work of centres of young technicians and raising their role in upbringing the children and youth. It is necessary to form "Centres of Science and Life" and organize small-size self-financing productions.

The paper carries the travel notes by journalist Ts. Elbeg-dorj, who visited Great Britain together with his colleague of the Mongolian Democratic Association (MDA) at the invitation of the House of Lords. The journalist points out that Great Britain, which regarded to be "sick person of Europe" in the 1950s, is today one of the five highly developed countries of the world.

MONTSAME Reviews Articles for 5 Sep

OW0509142390 Ulaanbaatar MONTSAME in English to BAKHTAR Kabul 1241 GMT 5 Sep 90—FOR OFFICIAL USE ONLY

[Excerpts] Ulaanbaatar, September 5 (OANA-MONTSAME)—Mongolian central newspapers widely cover the work of the first assembly of the MPR [Mongolian People's Republic] People's Great Hural [PGH] of the 12th convocation, which continues its work today for the third day. Yesterday morning the MPR First President P. Ochirbat took the oath in an half an hour ceremony. Having received the state seal P. Ochirbat delivered a short speech. He stated that he would make all his best to justify the trust of his people.

Yesterday's session of the PGH continued discussing the procedures. The status of the deputy from the 86th election constituency S. Hanjaubai was approved.

The government paper "ARDYN ERH" publishes under the heading "People and Life" the materials dealing with different social problems of the working people. It carries an interview of its correspondent with T. Baasanjav, deputy chairman of the executive board of the Town Hural of People's Deputies on distribution of housing. T. Baasanjav points out that despite the growth of housing construction in the capital there is still the lack of comfortable houses. In this connection he emphasizes the important significance of expanding the construction of individual houses. The paper stresses that the rights of the citizens of the country to leave for foreign countries are being violated due to the out-dated instruction approved are by the MPR Council of Ministers 15 years ago. This instruction contradicts the international pact on civic and political rights, which was joined by the MPR in 1968. [passage omitted]

The ruling party paper "UNEN" carries an article by Ch. Enhbaatar, department head of the Institute of State and Law of the MPR Academy of Sciences, dealing with the issues of improving the legislation of the country. The author notes that within the framework of the restructuring process under way in all spheres of the public life of great importance is the perfection of the legal system and in this a great role is to be played by the state Baga (Little) Hural which is to be formed at the current assembly of the People's Great Hural. [passage omitted]

"Unen" reports on an international scientific conference on management development and economic renewal. This conference is organized by the Management Developing Institute at the MPR Council of Ministers. About 20 scholars from 8 countries of the world are taking part in it. It also reports on a round table which was held at the Institute of Oriental Studies of the MPR Academy of Sciences to discuss the problems of oriental study. Prominent Mongolian and Chinese scholars took part in the round table.

In its international section "UNEN" emphasizes great significance of the forthcoming meeting of the USSR and U.S. Presidents M.S. Gorbachev and G. Bush.

"UNEN" commentator writes abou the recent signing of the treaty on joining of the GDR and the FRG and the situation in the Persian Gulf region.

The youth paper "MONGOLYN ZALUUCHUUD" reports that the deputies of the GPH representing the Mongolian Revolutionary Youth Union (MRYU) made a statement to form a MRYU group at the People's Great Hural.

The paper carries the outcomes of the sociological opinion poll among the young people. 57 percent of the pollees are satisfied with the outcomes of the general elections and the other 43 percent stated that they do not like the election outcomes.